



KBC BANK NV

(Incorporated with limited liability in Belgium)

Euro 10,000,000,000

Residential Mortgage Covered Bonds Programme

Arrangers

KBC Bank

Deutsche Bank

Dealers

KBC Bank

Deutsche Bank

The date of this Base Prospectus is 21 November 2012.

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) to approve this document as a base prospectus (the **Base Prospectus**) for the purposes of Article 29 of the Belgian Prospectus Law and Article 5.4 of the Prospectus Directive (as defined herein). This approval cannot be considered as a judgement as to the opportunity or the quality of the transaction, nor on the situation of the Issuer. Application has also been made to Euronext Brussels for the Covered Bonds issued under the Programme to be listed on Euronext Brussels. References in this Base Prospectus to the Covered Bonds being listed (and all related references) shall mean that the Covered Bonds have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.



KBC BANK NV

(Incorporated with limited liability in Belgium)

Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme

Under this Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme (the **Programme**), KBC Bank NV (the **Issuer** or **KBC Bank**) may from time to time issue *Belgische pandbrieven/lettres de gage belges* (**Covered Bonds**) in accordance with the law of 3 August 2012 on the legal framework for Belgian covered bonds (as implemented in Chapter VIII of the Credit Institutions Supervision Law) (the **Covered Bonds Law**) and its implementing royal decrees and regulations.

The maximum aggregate nominal amount of all Covered Bonds from time to time outstanding under the Programme will not exceed Euro 10,000,000,000, subject to increase as described herein.

The Covered Bonds may be issued on a continuing basis to one or more of the Dealers specified under "Overview of the Programme" and any additional Dealer appointed under the Programme from time to time, which appointment may be for a specific issue or on an ongoing basis (each a **Dealer** and together the **Dealers**). References in this Base Prospectus to the **relevant Dealer** shall, in the case of an issue of Covered Bonds being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Covered Bonds.

An investment in Covered Bonds issued under the Programme involves certain risks. For a discussion of these risks see "Risk Factors". Investors should review and consider these risk factors carefully before purchasing any Covered Bonds.

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) to approve this document as a base prospectus (the **Base Prospectus**) for the purposes of Article 29 of the Belgian Prospectus Law and Article 5.4 of the Prospectus Directive (as defined herein). This approval cannot be considered as a judgment as to the opportunity or the quality of the transaction, nor on the situation of the Issuer. Application has also been made to Euronext Brussels for the Covered Bonds to be listed on Euronext Brussels. References in this Base Prospectus to the Covered Bonds being listed (and all related references) shall mean that the Covered Bonds have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

The National Bank of Belgium (the **NBB**) has admitted the Issuer to the list of credit institutions that are authorised to issue Belgian covered bonds and has admitted the Programme to the list of authorised programmes for issuance of Belgian covered bonds. Issuances made under the Programme shall be included in the list of the Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) on the website of the NBB at www.nbb.be.

The Base Prospectus is a prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the **Prospectus Directive**) and the Belgian Prospectus Law. It intends to give the information with regard to the Issuer and the Covered Bonds, which according to the particular nature of the Issuer and the Covered Bonds, is necessary to enable investors to make an informed assessment of the rights attaching to the Covered Bonds and of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

Covered Bonds may be issued in dematerialised form (**Dematerialised Covered Bonds**) or in registered form (**Registered Covered Bonds**). Dematerialised Covered Bonds will be issued in dematerialised form under the Belgian Company Code (*Wetboek van Vennootschappen/Code des Sociétés*) (the **Belgian Company Code**) and cannot be physically delivered. The Dematerialised Covered Bonds will be represented exclusively by book entries in the records of the X/N securities and cash clearing system operated by the National Bank of Belgium (the **NBB**) or any successor thereto (the **Securities Settlement System**). Access to the Securities Settlement System is available through those of its Securities Settlement System participants whose membership extends to securities such as the Covered Bonds. Securities Settlement System participants include certain banks, stockbrokers (*beursvennootschappen/sociétés de bourse*), Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking, société anonyme, Luxembourg (**Clearstream, Luxembourg**). Accordingly, the Dematerialised Covered Bonds will be eligible to clear through, and therefore accepted by, Euroclear and Clearstream, Luxembourg and investors can hold their Dematerialised Covered Bonds within securities accounts in Euroclear and Clearstream, Luxembourg. Registered Covered Bonds will be registered in a register maintained by the Issuer or a registrar on behalf of the Issuer (a **Registrar**) in accordance with Article 462 *et seq.* of the Belgian Company Code.

Unless otherwise stated, capitalised terms used in this Base Prospectus have the meanings set forth in this Base Prospectus. Where reference is made to the Conditions of the Covered Bonds or to the Conditions, reference is made to the Terms and Conditions of the Covered Bonds.

Notice of the aggregate nominal amount of Covered Bonds, interest (if any) payable in respect of Covered Bonds, the issue price of Covered Bonds and certain other information which is applicable to each Tranche (as defined under "*Terms and Conditions of the Covered Bonds*") of Covered Bonds will be set out in a final terms document (the **Final Terms**) which, with respect to Covered Bonds to be listed on Euronext Brussels, will be filed with the FSMA. Copies of Final Terms in relation to Covered Bonds to be listed on the Euronext Brussels will also be published on the website of KBC Group NV (www.kbc.com).

The Programme provides that Covered Bonds may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the Issuer and the relevant Dealer(s). In the case of Covered Bonds which are to be admitted to trading on a regulated market (as defined in the Prospectus Directive) of a European Economic Area Member State other than the regulated market of Euronext Brussels (a **Host Member State**) the Issuer will request that the FSMA delivers to the competent authority of the Host Member State a certificate of approval pursuant to Article 18 of the Prospectus Directive attesting that the Base Prospectus has been drawn up in accordance with the Prospectus Directive. The Issuer may also issue unlisted Covered Bonds and/or Covered Bonds not admitted to trading on any market.

The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds intended to be listed or admitted to trading, as the case may be, on a regulated market in the European Economic Area) a Supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds. The Issuer may also issue and/or agree with any Dealer or investor (as applicable) to issue Covered Bonds in a form and subject to conditions not contemplated by the Terms and Conditions or the Final Terms set out herein or under a different prospectus or without prospectus.

The rating of certain Series of Covered Bonds to be issued under the Programme may be specified in the applicable Final Terms. Whether or not each credit rating applied for in relation to relevant Series of Covered Bonds will be issued by a credit rating agency established in the European Union and registered under Regulation (EC) No. 1060/2009, as amended, (the **CRA Regulation**) will be disclosed in the applicable Final Terms.

The Covered Bonds issued under the Programme are expected on issue to be assigned a rating by Moody's Investors Service Limited or its successors (**Moody's**) and Fitch Ratings Ltd., Fitch France S.A.S. or any of their successors (**Fitch**), each of which is established in the European Union and is registered under the CRA Regulation. As such each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation. Details of the ratings of the Covered Bonds, if applicable, will be specified in the applicable Final Terms. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, change or withdrawal at any time by the assigning rating organisation.

The issue price and amount of the relevant Covered Bonds will be determined at the time of offering of each Tranche or Series based on, *inter alia*, the then prevailing market conditions and will be set out in the applicable Final Terms.

KBC Bank	Arrangers	Deutsche Bank
KBC Bank	Dealers	Deutsche Bank

The date of this Base Prospectus is 21 November 2012. The Base Prospectus shall be valid for a period of one year from its date of approval.

IMPORTANT INFORMATION

This Base Prospectus comprises a base prospectus in respect of Covered Bonds issued under the Programme for the purposes of Article 5.4 of Directive 2003/71/EC as amended (which includes the amendments made by Directive 2010/73/EU to the extent that such amendments have been implemented or applied in a Relevant Member State of the European Economic Area) (the **Prospectus Directive**).

The Issuer accepts responsibility for the information contained in this Base Prospectus and each Final Terms. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Market data and other statistical information used in this Base Prospectus has been extracted from a number of sources, including independent industry publications, government publications, reports by market research firms or other independent publications (each an **Independent Source**). The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by the relevant Independent Source, no facts have been omitted which would render the reproduced information inaccurate or misleading.

This Base Prospectus is to be read in conjunction with all documents which are deemed to be incorporated herein by reference (see "*Documents Incorporated by Reference*"). This Base Prospectus shall be read and construed on the basis that such documents are incorporated and form part of this Base Prospectus.

The requirement to publish a prospectus under the Prospectus Directive only applies to Covered Bonds which are to be admitted to trading on a regulated market in the European Economic Area under Article 3.2 of the Prospectus Directive (as implemented in the Relevant Member State(s)). References in this Base Prospectus to **Exempt Covered Bonds** are to Covered Bonds for which no prospectus is required to be published under the Prospectus Directive. The Issuer may agree with any Dealer that Covered Bonds may be issued in a form not contemplated by the Terms and Conditions of the Covered Bonds herein, in which event (in the case of Covered Bonds intended to be listed or admitted to trading, as the case may be, on a stock exchange) a Supplement to this Base Prospectus, if appropriate, will be made available which will describe the effect of the agreement reached in relation to such Covered Bonds. The Issuer may also issue and/or agree with any Dealer or investor (as applicable) to issue Covered Bonds in a form and subject to conditions not contemplated by the terms and conditions or the final terms set out herein or under a different prospectus or without prospectus.

Neither the Arrangers, nor the Dealers, nor the Representative (as defined below) have independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arrangers, the Dealers or the Representative as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. None of the Arrangers, the Dealers or the Representative accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Issuer in connection with the Programme. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

To the fullest extent permitted by law, any Dealer appointed under the Programme from time to time does not accept any responsibility for the contents of this Base Prospectus or for any other statement, made or purported to be made by the Dealer or on its behalf in connection with the Issuer or the issue and offering of the Covered Bonds. Each Dealer accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to in this section) which it might otherwise have in respect of this Base Prospectus or any such statement. The statements made in this paragraph are made without prejudice to the responsibility of the Issuer under the Programme.

No person is or has been authorised by the Issuer, the Dealers or the Representative to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Covered Bonds and, if given or made, such

information or representation must not be relied upon as having been authorised by the Issuer, any of the Dealers or the Representative.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Covered Bonds (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer, any of the Dealers or the Representative that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Covered Bonds should purchase any Covered Bonds. Each investor contemplating purchasing any Covered Bonds should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Covered Bonds constitutes an offer or invitation by or on behalf of the Issuer, any of the Dealers or the Representative to any person to subscribe for or to purchase any Covered Bonds.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Covered Bonds shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same. The Dealers and the Representative expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the Programme or to advise any investor in the Covered Bonds of any information coming to their attention. Investors should review, inter alia, the documents incorporated herein by reference when deciding whether or not to purchase any Covered Bonds.

This Base Prospectus contains certain statements that are forward-looking statements with respect to the Issuer's business strategies, expansion and growth of operations, trends in its business, competitive advantage, and technological and regulatory changes, information on exchange rate risk and generally including all statements preceded by, followed by or that include the words **believe, expect, project, anticipate, seek, estimate** or similar expressions. Such forward-looking statements are not guarantees of future performance and involve risk and uncertainties and actual results may differ materially from those in the forward looking statements as a result of various factors. Potential investors are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof.

IMPORTANT INFORMATION RELATING TO THE USE OF THIS BASE PROSPECTUS AND OFFERS OF COVERED BONDS GENERALLY

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Covered Bonds in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Covered Bonds may be restricted by law in certain jurisdictions. The Issuer, the Dealers and the Representative do not represent that this Base Prospectus may be lawfully distributed, or that any Covered Bonds may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer, the Dealers or the Representative which is intended to permit a public offering of any Covered Bonds or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Covered Bonds may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Covered Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Covered Bonds. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Covered Bonds in the United States, the EEA, the United Kingdom, Spain, Japan, France, the Netherlands, the Republic of Italy, the Czech Republic, Poland, Hong Kong, the Republic of Singapore, Korea, Hungary and the Slovak Republic and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds (see *Subscription and Sale* below).

This Base Prospectus has been prepared on a basis that would permit a public offer of Covered Bonds with a denomination of at least Euro 100,000. As a result, any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Covered Bonds. Accordingly any person making or intending to make an offer of Covered Bonds in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Covered Bonds in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

The Covered Bonds may not be a suitable investment for all investors. Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;
- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds where the currency for principal or interest payments is different from the potential investor's currency;
- understands thoroughly the terms of the Covered Bonds and is familiar with the behaviour of financial markets; and
- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Covered Bonds are legal investments for it, (b) Covered Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

The Covered Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended, (the **Securities Act**). Subject to certain exceptions, Covered Bonds may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (see "*Subscription and Sale*").

PRESENTATION OF INFORMATION

In this Base Prospectus, all references to

- **euro** and **Euro** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended;
- **KBC Bank Group** refers to KBC Bank NV together with its subsidiaries; and
- **KBC Group** refers to KBC Group NV together with its subsidiaries (including KBC Bank NV and KBC Insurance NV).

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STABILISATION

In connection with the issue of any Tranche of Covered Bonds, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Covered Bonds or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake any stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Series of Covered Bonds is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Series of Covered Bonds and 60 days after the date of the allotment of the relevant Tranche of Covered Bonds. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

RISK FACTORS

In purchasing Covered Bonds, investors assume the risk that the Issuer may become insolvent or otherwise be unable to make all payments due in respect of the Covered Bonds. There is a wide range of factors which individually or together could result in the Issuer becoming unable to make all payments due in respect of the Covered Bonds. It is not possible to identify all such factors or to determine which factors are most likely to occur, as the Issuer may not be aware of all relevant factors and certain factors which it currently deem not to be material may become material as a result of the occurrence of events outside the Issuer's control. The Issuer has identified in this Base Prospectus a number of factors which could materially adversely affect its business and ability to make payments due under the Covered Bonds.

In addition, factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme are also described below.

Words and expressions defined in the "Terms and Conditions of the Covered Bonds" below or elsewhere in this Base Prospectus have the same meanings in this Risk Factors section, unless the contrary intention appears.

Risk factors have been grouped as set out below:

Factors that may affect the Issuer's ability to fulfil its obligations under the Covered Bonds issued under the Programme

- Risks related to the market in which KBC Bank Group operates
- Risks related to KBC Bank Group and its business
- Risks relating to the Special Estate and the Covered Bonds

Factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme

Risks related to the Covered Bonds

- Risks related to the structure of a particular issue of Covered Bonds
- Risks related to Covered Bonds generally

The risks associated with a particular Series of Covered Bonds may change over time. Prospective investors should seek advice from a professional financial and/or legal adviser in order to understand the risks associated with a particular Series of Covered Bonds.

Risks related to the market in which KBC Bank Group operates

Current economic and market conditions pose significant challenges for KBC Bank Group and may adversely affect the results

The global economy, the condition of the financial markets and adverse macro-economic developments can all significantly influence KBC Bank Group's performance. In recent years, the financial markets have experienced unprecedented levels of market volatility. The financial turbulence since 2008 and its after-effects on the wider economy have led to more difficult earnings conditions for the financial sector. During this period, numerous governments and central banks were forced into the role of lender of last resort as funding available to financial institutions from lenders and institutional investors was scarce and threatened the continued stability of the global financial system. The tightening of credit, increased market volatility and widespread reduction of business activity generally has adversely affected KBC Bank Group's financial condition, results of operations, liquidity and access to capital and credit. Since early 2009, substantial market uncertainty and significant constraints on the credit system remain.

Furthermore, certain countries in Europe have relatively large sovereign debts or fiscal deficits, or both, which has led to tensions in the EU bond markets, the interbank lending market and to credit spread volatility during recent months. The peripheral crisis of 2010 has affected countries, such as Ireland, in which KBC Bank Group operates. There continue to be constraints on the availability of wholesale debt funding at reasonable cost, especially in Europe, as a result of the peripheral crisis, the broader political and economic environment and other factors.

Since KBC Bank Group currently conducts the majority of its business in Belgium, Ireland and Central and Eastern Europe, its performance is certainly influenced by the level and cyclical nature of business activity in these countries which is in turn affected by both domestic and international economic and political events. A weakening in these economies may in particular have a negative effect on KBC Bank Group's financial condition and results of operations. Moreover, any deterioration in current financial and credit market conditions could further adversely affect KBC Bank Group's business and, if they were to persist or worsen, could adversely affect the results of operations and financial condition of KBC Bank Group.

The losses and asset impairments resulting from the current economic situation forced many banks, including KBC Bank Group, to raise additional capital in order to maintain appropriate capital adequacy and solvency ratios. Nonetheless, KBC Bank and/or certain of its regulated subsidiaries may need to raise additional capital, either as a result of further asset impairments or other factors. Further infusions of additional equity capital, if necessary, may be difficult to achieve. Any failure by KBC Bank Group to maintain its minimum regulatory capital ratios could result in administrative actions or sanctions, which in turn may have a material adverse effect on operating results, financial condition and prospects.

General business and economic conditions that could affect KBC Bank Group include the level and volatility of short-term and long-term interest rates, inflation, employment levels, bankruptcies, household income, consumer spending, fluctuations in both debt and equity capital markets, liquidity of the global financial markets, fluctuations in foreign exchange, the availability and cost of funding, investor confidence, credit spreads (eg corporate, sovereign), and the strength of the economies in which KBC Bank Group operates.

In addition, KBC Bank Group's business activities are dependent on the level of banking, finance and financial services required by its customers. In particular, levels of borrowing are heavily dependent on customer confidence, employment trends, the state of the economies in which KBC Bank Group does business and market interest rates at the time.

Market volatility can negatively affect KBC Bank Group's banking and asset management activities through a reduction in demand for products and services, a reduction in the value of assets held by KBC Bank Group, a decline in the profitability of certain assets and a loss of liquidity in certain asset classes.

Increased regulation of the financial services industry or changes thereto could have an adverse effect on KBC Bank Group's operations

The recent global economic downturn has resulted in calls for significant changes to regulatory regimes in the U.S., the European Union, Belgium and other countries. There have been significant regulatory developments in response to the global crisis, including various initiatives and measures taken at the level of the European Union or national governments, the stress test exercise coordinated by the European Banking Authority in cooperation with the European Central Bank, liquidity risk assessments on European and national level and the adoption of new regulatory capital requirements under Basel III and the Capital Adequacy Directive and Regulation, CRD IV. In addition, changes are also being further made to the International Financial Accounting Standards (IFRS). Although KBC Bank Group works closely with its regulators and continually monitors regulatory developments, there can be no assurance that additional regulatory or capital requirements will not have an adverse impact on KBC Bank Group, its business, financial condition or results of operations.

There can be no assurance that implementation of these new standards, or any other new regulation, will not require KBC Bank Group to issue securities that qualify as regulatory capital or to liquidate assets or curtail business, all of which may have adverse effects on its business, financial condition and results of operations.

KBC Bank Group conducts its businesses subject to ongoing regulation and associated regulatory risks, including the effects of changes in the laws, regulations, policies and interpretations in Belgium and the other regions in which KBC Bank Group does business. Changes in supervision and regulation, in particular in Belgium and Central & Eastern Europe (eg Hungary), could materially affect KBC Bank Group's business, the products and services offered by it or the value of its assets. In addition to the above, since the start of the global economic downturn, there seems to be an increase in the level of scrutiny applied by governments and regulators to enforce applicable regulations and calls to impose further charges on the financial services industry. There can be no assurance that such increased scrutiny or charges, will not require KBC Bank Group to take additional measures which, in turn, may have adverse effects on its business, financial condition and results of operations.

Risk associated with the highly competitive environment in which KBC Bank Group operates and which could intensify further as a result of the global market conditions

As part of the financial services industry, KBC Bank Group faces substantial competitive pressures that could adversely affect the results of its operations in banking, insurance, asset management and other products and services.

In its Belgian home market, KBC Bank faces substantial competition, mainly from BNP Paribas Fortis, ING Group and Belfius Bank. In addition, KBC Bank faces increased competition in the Belgian savings market from smaller-scale banking competitors (and internet bank competitors) seeking to enlarge their respective market shares by offering higher interest rates. In Central & Eastern Europe, KBC Bank Group faces competition from the regional banks in each of the jurisdictions in which it operates and from international competitors such as UniCredit, Erste Bank and Raiffeisen International. Competition is also affected by consumer demand, technological changes, regulatory actions and/or limitations and other factors. These competitive pressures could result in increased pricing pressures on a number of KBC Bank Group's products and services and in the loss of market share in one or more such markets.

Risks associated with liquidity and funding, which are inherent to KBC Bank Group's business, are aggravated by the current global market conditions

The procurement of liquidity for KBC Bank Group's operations and access to long term financings are crucial to achieve KBC Bank Group's strategic goals, as they enable KBC Bank Group to meet payment obligations in cash and on delivery, scheduled or unscheduled, so as not to prejudice KBC Bank Group's activities or financial situation.

Although KBC Bank Group currently has a satisfactory liquidity position (with a diversified core deposit base and a large amount of liquid and/or pledgeable assets), its procurement of liquidity could be adversely impacted by the inability to access the debt market, sell products or reimburse financings as a result of the deterioration of market conditions, the lack of confidence in financial markets, uncertainties and speculations regarding the solvency of market participants, rating downgrades or operational problems of third parties. In addition thereto, KBC Bank Group's liquidity position could furthermore be adversely impacted by substantial outflows in deposits, asset management products and life insurance products.

Limitations of KBC Bank Group's ability to raise the required funds on terms which are favourable for KBC Bank Group, difficulties in obtaining long-term financings on terms which are favourable for KBC Bank Group or dealing with substantial outflows could adversely affect KBC Bank Group's business, financial condition and results of operations. In this respect, the adoption of new liquidity requirements under Basel III and CRD IV is also to be taken into account since these could give rise to an increased competition to attract the necessary deposits.

Furthermore, protracted market declines can reduce the liquidity of markets that are typically liquid. If, in the course of its activities, KBC Bank Group requires significant amounts of cash on short notice in excess of anticipated cash requirements, KBC Bank Group may have difficulty selling investments at attractive prices, in a timely manner, or both.

In response to the financial markets crisis and the reduced liquidity available, many market operators in the industry have to fall back on support from central banks and governments by pledging securities as collateral. Unavailability of liquidity through such measures, or the decrease or discontinuation of such measures could add to increased difficulties in procuring liquidity on the market and/or result in higher costs for the procurement of such liquidity when needed, thereby adversely affecting KBC Bank Group's business, financial condition and results of operations.

Risks related to KBC Bank Group and its business

KBC Bank Group has significant credit default risk exposure

As a large financial organisation, KBC Bank Group is subject to a wide range of general credit risks, including risks arising from changes in the credit quality and recoverability of loans and amounts due from counterparties. Third parties that owe KBC Bank Group money, securities or other assets may not pay or perform under their obligations. These parties include, among others, borrowers under loans made by KBC Bank Group, the issuers whose securities KBC Bank Group holds, customers, trading counterparties, counterparties under swaps and credit and other derivative contracts, clearing agents, exchanges, clearing houses, guarantors and other financial intermediaries. These parties may default on their obligations to KBC Bank Group due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Credit institutions have witnessed a significant increase in default rates over the past few years as a result of worsening economic conditions. This increase in the scope and scale of defaults is evidenced by the significant increase in the amount of impaired loans in the portfolio of KBC Bank Group. This trend remains visible, particularly in Ireland and Hungary. In part of the Central Eastern European countries where KBC Bank Group is active in, credit is also granted in a currency other than the local currency. Changes in exchange rates between the local and such other currency can also have an impact on the credit quality of the borrower. Any further adverse changes in the credit quality of KBC Bank Group's borrowers, counterparties or other obligors could affect the recoverability and value of its assets and require an increase in KBC Bank Group's provision for bad and doubtful debts and other provisions. In addition to the credit quality of the borrower, adverse market conditions such as declining real estate prices negatively affect the results of KBC Bank Group's credit portfolio since these impact the recovery value of the collateral. All this could be further exacerbated in the case of a prolonged economic downturn or worsening market conditions.

KBC Bank Group's banking business makes provisions for loan losses which correspond to the provision for impairment losses in its income statement in order to maintain appropriate allowances for loan losses based on an assessment of prior loan loss experience, the volume and type of lending being conducted, industry standards, past due loans, economic conditions and other factors related to the collectability of the loan portfolio. This determination is primarily based on KBC Bank Group's historical experience and judgment. Any increase in the provision for loan losses, any loan losses in excess of the previously determined provisions with respect thereto or changes in the estimate of the risk of loss inherent in the portfolio of non-impaired loans could have a material adverse effect on KBC Bank Group's business, results of operation or financial condition.

KBC Bank Group's principal credit risk exposure is to retail and corporate customers, including in its mortgage and real estate portfolio, as well as towards other financial institutions and sovereigns. As this credit risk reflects some concentration, particularly in Belgium, Ireland and certain Eastern European countries where it is active, KBC Bank Group's financial position is sensitive to a significant deterioration in credit and general economic conditions in these regions. Moreover, uncertainty regarding the euro-area, the risk of losses as a result of a country's or a credit institution's financial difficulties or a downgrade in its credit rating could have a significant impact on KBC Bank Group's credit exposure, loan provisioning, results of operation and financial position. In addition, concerns about, or a default by, one credit institution could lead to significant liquidity problems, losses or defaults by other institutions, because the commercial and financial soundness of many financial institutions are closely related as a result of their credit, trading, clearing and other relationships.

The events described above have and may continue to adversely affect KBC Bank Group's ability to engage in routine transactions as well as the performance of various loans and other assets it holds.

KBC Bank Group is exposed to counterparty credit risk in derivative transactions

KBC Bank Group executes a wide range of derivatives transactions, including interest rate, exchange rate, share/index prices, commodity and credit derivatives with counterparties in the financial services industry.

Operating in derivative financial instruments exposes KBC Bank Group to market risk and operational risk, as well as the risk that the counterparty defaults on its obligations or becomes insolvent prior to maturity when KBC Bank Group has an outstanding claim against that counterparty. Non-standardized or individually negotiated derivative transactions can make exiting, transferring or settling the position difficult.

Counterparty credit risk has increased due to recent volatility in the financial markets and may be further exacerbated if the collateral held by KBC Bank Group cannot be realised or liquidated at a value that is sufficient to cover the full amount of the counterparty exposure.

Changes in interest rates, which are caused by many factors beyond KBC Bank Group's control, can have significant adverse effects on its financial results

Fluctuations in interest rates affect the returns KBC Bank Group earns on fixed interest investments. Interest rate changes also affect the market values of the amounts of capital gains or losses KBC Bank Group takes on and the fixed interest securities it holds. These fluctuations and changes affect KBC Bank Group's net interest income and recognised gains and losses on securities held in its investment portfolios.

The results of KBC Bank Group's banking operations are affected by its management of interest rate sensitivity. Interest rate sensitivity refers to the relationship between changes in market interest rates and changes in net interest income. The composition of KBC Bank Group's banking assets and liabilities, and any gap position resulting from the composition, causes KBC Bank Group's banking operations' net interest income to vary with changes in interest rates. In addition, variations in interest rate sensitivity may exist within the repricing periods or between the different currencies in which KBC Bank Group holds interest rate positions. A mismatch of interest-earning assets and interest-bearing liabilities in any given period may, in the event of changes in interest rates, have a material effect on the financial condition or results of operations of KBC Bank Group's banking businesses.

KBC Bank Group is subject to foreign exchange risk

KBC Bank Group pursues a prudent policy as regards its structural currency exposure, with a view to limit as much as possible currency risk. Foreign exchange exposures in the ALM books of banking entities with a trading book are transferred to the trading book where they are managed within the allocated trading limits. The foreign exchange exposure of banking entities without a trading book and of other entities has to be hedged, if material. Equity holdings in non-euro currencies that are part of the investment portfolio are however not generally hedged. Participating interests in foreign currency are in principle funded by borrowing an amount in the relevant currency equal to the value of the net assets excluding goodwill. Although KBC Bank Group pursues a prudent policy with regard to foreign exchange risk, there can still be a limited impact of this risk on the financial results of KBC Bank Group.

KBC Bank Group's strategies for hedging against market risks may prove to be ineffective

The most significant market risks KBC Bank Group faces are interest rate, foreign exchange and bond and equity price risks. Changes in interest rate levels, yield curves and spreads may affect the interest rate margin realized between lending and borrowing costs. Changes in currency rates affect the value of assets and liabilities denominated in foreign currencies and may affect income from foreign exchange dealing. The performance of financial markets may cause changes in the value of KBC Bank Group's investment and trading portfolios.

KBC Bank Group uses a range of instruments and strategies to hedge against market risks. If these instruments and strategies prove ineffective or only partially effective, KBC Bank Group may suffer losses. Unforeseen market developments such as the development of government bonds of various countries that occurred in 2011 and 2012 may significantly reduce the effectiveness of the measures taken by KBC Bank Group to hedge risks. Gains and losses from ineffective risk-hedging measures may heighten the volatility of the results achieved by KBC Bank Group and could therefore have a material adverse effect on KBC Bank Group's business, results of operations and financial condition.

A downgrade in the credit rating of KBC Bank Group may limit access to certain markets and counterparties and may necessitate the posting of additional collateral to counterparties or exchanges

The credit ratings of KBC Bank Group are important to maintaining access to key markets and trading counterparties. The major rating agencies regularly evaluate KBC Bank Group and its securities, and their ratings of debt and other securities are based on a number of factors, including financial strength as well as factors not entirely within the control of KBC Bank Group, including conditions affecting the financial services industry generally or the rating of the countries in which it operates. In light of the difficulties in the financial services industry and the financial markets, there can be no assurance that KBC Bank Group will maintain the current ratings.

KBC Bank Group's failure to maintain its credit ratings could adversely affect the competitive position, make entering into hedging transactions more difficult and increase borrowing costs or limit access to the capital markets or the ability of KBC Bank Group to engage in funding transactions at all. A further reduction in KBC Bank Group credit ratings also could have a significant impact on certain trading revenues, particularly in those businesses where longer term counterparty performance is critical. In connection with certain trading agreements, KBC Bank Group may be required to provide additional collateral in the event of a credit ratings downgrade.

KBC Bank Group is highly concentrated in and hence vulnerable to European sovereign exposure, in particular in its home country Belgium

KBC Bank Group conducts the vast majority of its business in the European Union (as at 31 December 2011, approximately 94% of its business). Part of that business has led to an exposure by KBC Bank Group towards various countries in the European Union, including certain countries which have come under market pressure. Given the recent political, economical and financial developments in most of the European countries, KBC Bank Group incurs a risk that those countries will no longer be able to comply with the terms and conditions of their exposure vis-à-vis KBC Bank Group. If such sovereign risk would materialize, KBC Bank Group's business, financial condition and results of operation could be materially adversely affected. Exposure towards the PIIGS countries has been reduced and been replaced by a further increase in the exposure towards Belgian sovereign debt.

KBC Bank Group is exposed to potential losses stemming from structured products portfolios, including its ABS and CDO portfolios

Structured credit activities of KBC Bank Group entities relate to ABSs and CDOs, which are defined as follows:

- ABS are bonds or notes backed by loans or accounts receivable originated by providers of credit, such as banks and credit card companies. Typically, the originator of the loans or accounts receivable transfers the credit risk to a trust, which pools these assets and repackages them as securities. These securities are then underwritten by brokerage firms, which offer them to the public.
- CDOs are a type of asset-backed security and a structured finance product in which a distinct legal entity, a Special Purpose Vehicle (SPV), issues bonds or notes against an investment in an underlying asset pool. Pools may differ with regard to the nature of their underlying assets and can be collateralized either by a portfolio of bonds, loans and other debt obligations, or be backed by synthetic credit exposures through use of credit derivatives and credit-linked notes.

The claims issued against the collateral pool of assets are prioritized in order of seniority by creating different tranches of debt securities, including one or more investment grade classes and an equity/first loss tranche. Senior claims are insulated from default risk to the extent that the more junior tranches absorb credit losses first. As a result, each tranche has a different priority of payment of interest and/or principal and may thus have a different rating.

KBC Bank Group was active in the field of structured credits both as an originator and an investor. Since mid 2007, KBC Bank Group tightened its strategy. As an originator, KBC Bank Group also takes on other roles such as sponsor, when it provides liquidity support to the related SPVs. KBC Bank Group also invested in structured credit products. These investments appear on KBC Bank Group's balance sheet. The risks linked to these structured products portfolios may have an adverse effect on KBC Bank Group's business, financial condition and results of operation.

Risks associated with the government support and the associated EU plan

The acceptance of government support also includes the acceptance of related risks and obligations – KBC Bank Group's ability to successfully execute its strategic plan is not assured.

The acceptance of government support and the approval of these measures under European Union State Aid rules was subject to submission by the Belgian authorities of a restructuring plan for KBC Bank Group containing measures to safeguard its long-term viability and to ensure its capacity to repay within a reasonable timeframe the capital received. This restructuring plan was approved on 18 November 2009 and amended on 27 July 2011. Under the terms of such approval, the European Commission has imposed a range of conditions on KBC Bank Group, including divestment, conduct of business and other restrictions, some of which could materially impact KBC Bank Group or result in dilution for the existing shareholders of KBC Bank Group.

Approval by European Commission of the restructuring plan was also subject to the imposition of certain behavioural commitments imposed on KBC Bank Group, such as maintaining a minimum solvency ratio, respecting certain limitations on executive compensation, restrictions on acquisitions, and adhering to a price leadership ban subject to certain conditions. Furthermore, the acceptance of the government support has led to the supervision of the European Union and the presence of government representatives in the board of directors of KBC Bank Group which entails limits to the autonomy of KBC Bank Group.

Further, the strategic plan requires KBC Bank Group and its subsidiaries to engage in a restructuring according to the terms outlined in such plan, including the disposal and downsizing of a significant number of its businesses. KBC Bank Group has implemented a range of initiatives to give effect to the plan, including some important steps to derisk aspects of the merchant banking business unit. Such divestments are obligatory, and, while the European Commission has permitted KBC Bank Group flexibility to avoid the need for conducting disposals at below book value prices, there can be no assurance that these divestments will be completed on favourable terms or at all and without any operational risk on behalf of KBC Bank Group. The completion of any proposed divestments may be subject to a range of conditions, including but not limited to regulatory approval and other actions beyond KBC Bank Group's control. A number of divestment initiatives are at a preliminary stage and there can be no assurance that any or all of the divestments will be completed within the envisioned timeframe, at the price or cost anticipated and without any impact on the profit (loss) of KBC Bank Group or at all. Additionally, there can be no assurance that the disposal of one or more of the businesses will not negatively impact KBC Bank Group's business, financial condition or results of operations in the future.

While KBC Bank Group strictly manages its operational risks, these risks remain inherent to its businesses

KBC Bank Group is exposed to many types of operational risks, including fraudulent and other criminal activities (both internal and external), breakdowns in processes or procedures and systems failure or non-availability. In addition, KBC Bank Group may also be subject to disruptions of its operating systems, or of the infrastructure that supports it, arising from events that are wholly or partially beyond KBC Bank Group's control (for example natural disasters, acts of terrorism, computer viruses, pandemics, transport or utility

failures or external vendors not fulfilling their contractual obligations) which could give rise to losses in service to customers and to loss or liability to KBC Bank Group.

The operational risks that KBC Bank Group faces include the possibility of inadequate or failed internal or external processes or systems, human error, regulatory breaches, employee misconduct or external events such as fraud. These events can potentially result in financial loss as well as harm to its reputation. Additionally, the loss of key personnel could adversely affect KBC Bank Group's operations and results.

KBC Bank Group attempts to keep operational risks at appropriate levels by maintaining a sound and well controlled environment in light of the characteristics of its business, the markets and the regulatory environments in which it operates. While these control measures mitigate operational risks they do not eliminate them.

KBC Bank Group's risk management policies, procedures and methods may leave it exposed to unidentified or unanticipated or incorrectly quantified risks, which could lead to material losses or material increases in liabilities

KBC Bank Group devotes significant resources to developing risk management policies and models, procedures and assessment methods for its banking and asset management businesses. KBC Bank Group applies both quantitative and qualitative methods to arrive at quantifications of risk exposures. These include a.o. value-at-risk (**VaR**) models, back testing, Probability of Default (**PD**) models, Loss Given Default (**LGD**) models, asset valuation models and stress tests as well as risk assessment methods.

Nonetheless, such risk management techniques and strategies may not be fully effective in assessing risk exposure in all economic and market environments or against all types of risk, including risks that KBC Bank Group fails to identify or anticipate. Some of the models and metrics used are based upon observed historical behaviour as well as future predictions. Accordingly, the models used by KBC Bank Group may fail to predict or predict incorrectly future risk exposures and KBC Bank Group's losses could therefore be significantly greater than such measures would indicate. In addition, the risk management methods used by KBC Bank Group do not take all risks into account and could prove insufficient. If prices move in a way that KBC Bank Group's risk modelling has not anticipated, KBC Bank Group may experience significant losses. These failures can be exacerbated where other market participants are using models that are similar to those of KBC Bank Group. In certain cases, it may also be difficult to reduce risk positions due to the activity of other market participants or widespread market dislocations. Furthermore, other risk management methods depend on the evaluation of information regarding markets, customers or other publicly-available information. Such information may not always be accurate or up-to-date.

Accordingly, KBC Bank Group's losses could be significantly greater than such measures would indicate and unanticipated or incorrectly quantified risk exposures could result in material losses in KBC Bank Group's banking and asset management businesses.

KBC Bank Group is exposed to the risk of breaches of compliance-related requirements in connection with the exercise of its business activity, such as provisions for limitation of money laundering

The possibility of inadequate or erroneous internal and external work processes and systems, regulatory problems, breaches of compliance-related provisions in connection with the exercise of business activities, such as rules to prevent money laundering, human errors and deliberate legal violations such as fraud cannot be ruled out. KBC Bank Group endeavours to hedge such risks by implementing appropriate control processes tailored to its business and the market and regulatory environment in which it operates. Nevertheless, it is possible that these measures prove to be ineffective in relation to particular or all operational risks to which KBC Bank Group is exposed. Even though KBC Bank Group endeavours to insure itself against the most significant operational risks, it is not possible to obtain insurance cover for all the operational risks on commercially acceptable terms on the market. Should one, some or all of the risks described in this paragraph materialise, KBC Bank Group business, results of operations and financial condition could be materially adversely affected.

Litigation or other proceedings or actions may adversely affect KBC Bank Group's business, financial condition and results of operations

KBC Bank Group's business is subject to the risk of litigation by customers, employees, shareholders or others through private actions, administrative proceedings, regulatory actions or other litigation. Given the complexity of the relevant circumstances and corporate transactions underlying these proceedings, together with the issues relating to the interpretation of applicable law, it is inherently difficult to estimate the potential liability related to such liability risks, to evaluate the outcome of such litigation or the time when such liability may materialize. Management makes estimates regarding the outcome of legal, regulatory and arbitration matters and creates provisions when losses with respect to such matters are deemed probable and can be reasonably estimated. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including but not limited to the type and nature of the litigation, claim or proceeding, the progress of the matter, the advice of legal counsel and other advisers, possible defences and previous experience in similar cases or proceedings. Legal proceedings with remote or non quantifiable outcomes are not provided for and KBC Bank Group may be required to cover litigation losses which are not covered by such provision, including for example series of similar proceedings. As a result, there can be no assurance that provisions will be sufficient to fully cover the possible losses arising from litigation proceedings and KBC Bank Group cannot give any assurance that a negative outcome in one or more of such proceedings would not have a material adverse effect on KBC Bank Group's business, results of operations or financial condition.

Furthermore plaintiffs in legal proceedings may seek recovery of large or indeterminate amounts or other remedies that may affect KBC Bank Group's ability to conduct business, and the magnitude of the potential loss relating to such actions may remain unknown for substantial periods of time. Also, the cost to defend future actions may be significant. There may also be adverse publicity associated with litigation that could decrease customer acceptance of its services, regardless of whether the allegations are valid or whether they are ultimately found liable.

As a result, litigation may adversely affect KBC Bank Group's business, financial condition and results of operations.

KBC Bank Group is exposed to risks on account of direct and indirect pension obligations

KBC Bank Group has various direct and indirect pension obligations towards its current and former staff. These obligations therefore entail various risks which are similar to a.o. risks in a life insurance company and risks with a capital investment. Risks, however, may also arise due to changes in tax or other legislation, and/or in judicial rulings as well as inflation rates or interest rates. Any of these risks could have a material adverse effect on KBC Bank Group's business, results of operations and financial condition.

Risks relating to the Special Estate and the Covered Bonds

The Covered Bonds will be obligations of the Issuer only

The Covered Bonds will be solely obligations of the Issuer and will not be obligations of or guaranteed by the Representative, the Cover Pool Monitor, the Cover Pool Administrator, the Competent Authority, the Agents, the Hedging Counterparties, the Arrangers, the Dealers or the Listing Agent (as defined below). No liability whatsoever in respect of any failure by the Issuer to pay any amount due under the Covered Bonds shall be accepted by any of the Arrangers, the Dealers, the Hedging Counterparties the Representative, the Cover Pool Monitor, the Agents, the Cover Pool Administrator, the Competent Authority, any company in the same group of companies as such entities or any other party to the programme documents relating to the Programme.

The Covered Bonds will not represent an obligation or be the responsibility of any of the Arrangers, the Dealers, the Representative or any other party to the Programme, their officers, members, directors, employees, security holders or incorporators, other than the Issuer. The Issuer will be liable solely in its corporate capacity for its obligations in respect of the Covered Bonds and such obligations will not be the obligations of its respective officers, members, directors, employees, security holders or incorporators.

Credit risk

Any person who purchases the Covered Bonds is relying upon the creditworthiness of the Issuer and has no recourse against any other person. Covered Bondholders are subject to the risk of a partial or total failure of the Issuer to make payments of interest and principal under the Covered Bonds.

The credit risk is to some extent mitigated as the Covered Bonds are covered by a segregated pool of assets (*bijzonder vermogen/patrimoine spécial*) (the **Special Estate**) of which the main asset category will consist of Residential Mortgage Loans their Related Security and all monies derived therefrom from time to time in accordance with the Covered Bonds Legislation. The Covered Bondholders and the Other Cover Pool Creditors, will have an exclusive right of recourse against the Special Estate (see section 4.3. (*Allocation of the Special Estate*) under *Summary of the Belgian covered bonds legislation*).

In addition, the Issuer has undertaken to ensure that the value of the Residential Mortgage Loans that are part of the Special Estate calculated in accordance with the Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105% of the aggregate Principal Amount Outstanding of Covered Bonds of all Series then outstanding. Therefore, the Covered Bonds are, amongst others, exposed to the credit risk of the Residential Mortgage Loans that are part of the Special Estate.

Liquidity risk

The maturity and amortisation profile of the Cover Assets may not match the repayment profile and maturities of the Covered Bonds, therefore creating a need for liquidity solutions at the level of the Programme.

Pursuant to Article 5, §3 of the Covered Bonds Royal Decree, the sum of interest, principal and all other revenues generated by the Cover Assets in the Special Estate must be sufficient to cover the sum of all interest, principal and charges linked to the Covered Bonds.

In addition, the Liquidity Test provided by Article 7, § 1 of the Covered Bonds Royal Decree requires that the Cover Assets must over a period of six months generate sufficient liquidity or include enough liquid assets in order to enable the Issuer to make all unconditional payments on the Covered Bonds (including principal, interest and other costs) falling due during the following six months. As an Extended Final Maturity Date will be specified in the applicable Final Terms for each Series of Covered Bonds, the payments subject to an extension in accordance with the Conditions shall, however, not be considered as unconditional for the purpose of article 7, §1 of the Covered Bonds Royal Decree.

To comply with the Liquidity Test, the Issuer is entitled to enter into a liquidity facility provided that the counterparty is a credit institution outside the group that satisfies certain credit quality requirements.

The liquidity risk at Programme level may further be mitigated by holding Cover Assets with a short-term amortisation profile or liquid assets such as cash. Under the Conditions, the Issuer has undertaken that it will ensure that the Special Estate will at all times include liquid bonds that have a market value which is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months (See Condition 2.6 (*Issuer undertaking*)). Under the Conditions, the Issuer furthermore has the option to retain all or part of the Covered Bonds for liquidity purposes and to enter into a liquidity facility.

Maintenance of the Special Estate

The Special Estate is subject to the Statutory Tests set out in the Covered Bonds Legislation. Failure of the Issuer to take prompt remedial action to cure any breach of the Liquidity Test will result in the Issuer not being able to issue further Covered Bonds and if the Issuer does not satisfy the Statutory Tests this may have an adverse effect on the ability of the Issuer to meet its payment obligations in respect of the Covered Bonds.

Factors that may affect the realisable value of the Special Estate or of the Cover Assets

The Covered Bondholders together with the Other Cover Pool Creditors will have an exclusive recourse against the Special Estate. Since the economic value of the Cover Assets may increase or decrease, the value of the Special Estate may decrease over time (eg, if there is a general decline in property values, default of Borrowers). Without prejudice to the obligation to comply with the Statutory Tests, the Issuer makes no representation, warranty or guarantee that the value of the Cover Assets will remain at the same level as it was on the date of the origination of the related Residential Mortgage Loan or at any other time.

The realisable value of Residential Mortgage Loans registered as Cover Assets and their Related Security comprising part of the Special Estate may be reduced by:

- default by borrowers (each borrower being, in respect of a Residential Mortgage Loan, the person specified as such in the relevant mortgage terms together with each person (if any) who assumes from time to time an obligation to repay such Loan (the **Borrower**) in payment of amounts due on their Residential Mortgage Loan;
- changes to the lending criteria of the Issuer;
- decline in real estate values; and
- possible regulatory changes by the regulatory authorities.

Each of these factors is considered in more detail below. The Statutory Tests are intended to mitigate this risk and purport to ensure that the Issuer maintains an adequate amount of Cover Assets in the Special Estate to enable the Issuer to meet its obligations under the Covered Bonds. There can be no assurance, however, that the Cover Assets could be realised for sufficient value to enable the Issuer to meet its obligations under the Covered Bonds.

Default by Borrowers in paying amounts due on their Residential Mortgage Loan

Borrowers may default on their obligations under the Residential Mortgage Loans. Defaults may occur for a variety of reasons. The Residential Mortgage Loans are affected by credit, liquidity and interest rate risks. Various factors influence mortgage delinquency rates, prepayment rates, repossession frequency and the ultimate payment of interest and principal, such as changes in the national or international economic climate, regional economic or housing conditions, changes in tax laws, interest rates, inflation, the availability of financing, yields on alternative investments, political developments and government policies. Other factors in Borrowers' individual, personal or financial circumstances may affect the ability of Borrowers to repay the Residential Mortgage Loans. Loss of earnings, illness, divorce and other similar factors may lead to an increase in delinquencies by and bankruptcies or collective debt arrangements of Borrowers, and could ultimately have an adverse impact on the ability of Borrowers to repay the Residential Mortgage Loans. In addition, the ability of a Borrower to sell a property given as security for a Residential Mortgage Loans at a price sufficient to repay the amounts outstanding under that Residential Mortgage Loan will depend upon a number of factors, including the availability of buyers for that property, the value of that property and property values in general at the time.

As Residential Mortgage Loans with respect to properties located in Belgium constitute the main asset category of the Special Estate, the above factors (or a combination of them) may have an adverse effect on mortgage borrowers' ability to meet their obligations under the Residential Mortgage Loans. This could reduce the value of the Residential Mortgage Loans and, ultimately, could result in losses for the Covered Bondholders if the Special Estate is liquidated. The ultimate effect of this could be to delay or reduce the payments on the Covered Bonds.

In addition, even though the Issuer is required to register additional assets (eg, Residential Mortgage Loans) in the Special Estate if the value of the Special Estate decreases to such extent that the Cover Tests would no longer be met, there can be no assurance that the Issuer will be in a position to originate or add new assets to the Special Estate in the future. (For a description of the Cover Tests see section 6 (*Over-Collateralisation and Tests*) under *Summary of the Belgian covered bonds legislation*).

Changes to the lending criteria of the Issuer

Each of the Residential Mortgage Loans originated by the Issuer will have been originated in accordance with its lending criteria applicable at the time of origination. It is expected that the Issuer's lending criteria will generally consider, *inter alia*, type of property, term of loan, age of applicant, the loan-to-value ratio, status of applicant and credit history. The Issuer retains the right to revise its lending criteria from time to time but would do so only to the extent that such a change would be acceptable to a reasonable, prudent mortgage lender. If the lending criteria change in a manner that affects the creditworthiness of the Residential Mortgage Loans, that may lead to increased defaults by Borrowers and may affect the realisable value of the Special Estate, or part thereof, and the ability of the Issuer to make payments under the Covered Bonds.

Decline in real estate values and geographical concentration of the Residential Mortgage Loans

The Residential Mortgage Loans may be affected by, among other things, a decline in real estate values. Certain geographic regions will from time to time experience weaker regional economic conditions and housing markets than will other regions and, consequently, may experience higher rates of loss and delinquency on mortgage loans generally. Although borrowers are located throughout Belgium, the Borrowers may be concentrated in certain locations. Any deterioration in the economic condition of the areas in which the Borrowers are located, or any deterioration in the economic condition of other areas that causes an adverse effect on the ability of the Borrowers to repay the Residential Mortgage Loans could increase the risk of losses on the Residential Mortgage Loans. A concentration of Borrowers in such areas may therefore result in a greater risk of loss than would be the case if such concentration had not been present. Such losses, if they occur, could have an adverse effect on the yield to maturity of the Covered Bonds as well as on the repayment of principal and interest due on the Covered Bonds. Certain areas of Belgium may from time to time experience declines in real estate values. No assurance can be given that values of the underlying properties have remained or will remain at their levels on the dates of origination of the related Residential Mortgage Loans. If the residential real estate market in Belgium in general, or in any particular region, should experience an overall decline in property values such that the outstanding balances of the Residential Mortgage Loans become equal to or greater than the value of the underlying properties, such a decline could in certain circumstances result in the value of the interest in the underlying property securing the Residential Mortgage Loans being significantly reduced and, ultimately, may affect the repayment of the Covered Bonds.

Regulatory changes

The Issuer's operations are subject to substantial regulation and regulatory and governmental oversight. Adverse legal or regulatory changes may be introduced in the future either by the European Union or by the Kingdom of Belgium or changes in government or prudential policy, which may have a negative impact on the realisable value of the Residential Mortgage Loans registered as Cover Assets and their Related Security.

In the current market environment, with increased government intervention of the banking sector, future changes in regulation, fiscal or other policies are unpredictable and beyond the control of the Issuer.

Areas where changes may have an adverse impact include, but are not limited to:

- the monetary, interest rate and other policies of central banks and regulatory authorities;
- other changes in regulatory requirements, such as prudential rules relating to the capital adequacy or liquidity frameworks;
- external bodies applying or interpreting standards or laws differently to the way these were historically applied by the Issuer;
- changes in the competitive environment and pricing in the market;
- further developments in the financial reporting environment; and
- other unfavourable political, economic, or social developments producing social instability or legal uncertainty.

Realisation of the Special Estate

If an Event of Default occurs and a Notice of Default is served on the Issuer, the Issuer, or upon its appointment by the NBB, the Cover Pool Administrator may be required to liquidate the Special Estate in whole or in part in order to repay the Covered Bondholders. Upon the service of a Notice of Default on the Issuer, the Covered Bonds of all Series will become immediately due and repayable on the date specified in the Notice of Default.

Likewise, on appointment of the Cover Pool Administrator, the Cover Pool Administrator may, in certain circumstances, proceed with the liquidation of the Special Estate and with the early repayment of the Covered Bonds. This is where bankruptcy proceedings have been initiated against the Issuer and the Cover Assets are not sufficient or risk not being sufficient to satisfy the obligations under the Covered Bonds (subject to approval by the NBB and consultation with the Representative) or when a decision to that effect has been taken at a Meeting of Covered Bondholders at which at least two thirds of the principal amount of all Covered Bonds of all Series is represented (see *Summary of the Belgian covered bonds legislation and Meeting Rules of the Covered Bondholders*).

In such circumstances, there is no guarantee that the proceeds of liquidation of the Special Estate will be in an amount sufficient to cover all amounts due to the Covered Bondholders and the Other Cover Pool Creditors under the Covered Bonds and the Programme Documents. The Covered Bonds may therefore be repaid sooner or later than expected or not at all.

The Statutory Tests and the legal requirements for Cover Assets set out in the Covered Bonds Legislation are intended to mitigate this risk but there can be no assurance that the Cover Assets could be realised for sufficient value to enable the Issuer to repay the Covered Bonds following an Event of Default and the service of a Notice of Default on the Issuer or upon a liquidation of the Special Estate by the Cover Pool Administrator. Under the Covered Bonds Legislation, the Statutory Tests will be verified by the Cover Pool Monitor on a periodic basis and will periodically be communicated to the NBB (see section *Summary of the Belgian Covered Bonds Legislation*).

Condition 2.6 (*Issuer undertaking*) and the Programme Documents contain an undertaking of the Issuer to ensure that it will comply with the obligations applicable to it under the Covered Bonds Legislation (which includes compliance with the Statutory Tests) and certain other obligations for so long as the Covered Bonds are outstanding. Covered Bondholders should note that they will not have the right to accelerate the Covered Bonds under the Conditions or the Programme Documents if the Issuer breaches its contractual undertaking to comply with the Covered Bonds Legislation or any other of its obligations provided for in the Issuer undertaking. This will, however, be without prejudice to any remedy available against the Issuer under Belgian contract law.

If the Special Estate is liquidated, the realisable value of the Cover Assets may be reduced (which may affect the ability of the Issuer to make payments under the Covered Bonds) by, a number of factors, including, without limitation: (a) default by Borrowers of amounts due on their Residential Mortgage Loans, (b) changes to the lending criteria of the Issuer, (c) possible regulatory changes, (d) adverse movement of interest rates, and (e) unwinding cost related to the hedging structure, if any.

Sale of Residential Mortgage Loans and their Related Security by the Cover Pool Administrator

Following the appointment of a Cover Pool Administrator, the Cover Pool Administrator, or any person appointed by the Cover Pool Administrator, will be entitled to sell in whole or in part the Cover Assets in order to help satisfy the Issuer's obligations in respect of the Covered Bonds. Without prejudice to the powers of the Cover Pool Administrator to liquidate the Special Estate in the circumstances set out above (included in Article 64/16 of the Credit Institutions Supervision Law), the Cover Pool Administrator needs the approval of the NBB and of the Representative for every transaction, including the sale of Cover Assets, that entails that the Cover Tests, the Liquidity Test or the contractual provisions can no longer be fulfilled.

The proceeds from any such sale will (i) following the service of Notice of Default be applied in accordance with the Post Event of Default Priority of Payments and (ii) following a decision by the Cover Pool

Administrator to early redeem the Covered Bonds of all Series pursuant to articles 64/16, 6° or 7° of the Credit Institutions Supervision Law be applied in accordance with the Early Redemption Priority of Payments. Before such events, no priority of payments will apply and the proceeds from any such sale will be applied to pay obligations to the Cover Pool Creditors (including the Covered Bondholders) as they become due and payable. As a result, there may be fewer assets available to support later maturing Series of Covered Bonds.

There is no guarantee that the Cover Pool Administrator will be able to sell in whole or in part the Cover Assets as the Cover Pool Administrator may not be able to find a buyer at the time it chooses to sell.

Transfer of the Special Estate in a situation of distress

The NBB may appoint a Cover Pool Administrator in the circumstances set out in Article 64/13 of the Credit Institutions Supervision Law. If in addition bankruptcy proceedings are initiated against the Issuer, the Cover Pool Administrator may, subject to approval of the NBB and following consultation with the Representative, transfer the Special Estate (ie all assets and liabilities) and its management to an institution which will be entrusted with the continued performance of the obligations to the Covered Bondholders in accordance with the applicable Conditions.

Even though the rights of the Covered Bondholders against the Special Estate will be maintained and will follow the Special Estate on any such transfer, investors should be aware that in such circumstances, the obligor under the Covered Bonds will be the institution to which the Special Estate is transferred. Any such transfer and change of debtor will be discussed with the Covered Bondholders' Representative but will not require the consent of the Covered Bondholders.

In similar vein, Article 57 bis of Credit Institutions Supervision Law provides that the King can impose emergency measures in circumstance where the situation of a Belgian credit institution threatens the stability of the Belgian or international financial system. Those emergency measures may, amongst other things, result in a transfer of assets and liabilities or branches of activity of a credit institution, which may include the Special Estate. The Covered Bonds Legislation specifies that the rights of the Covered Bondholders will be maintained and will follow the Special Estate on a disposal of assets of the Issuer in the context of such emergency measures.

Lastly, the European Commission has published a legislative proposal for a directive providing for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and investment firms. Amongst other things, the proposed directive contemplates the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities and provides for special rules for cross-border groups. The resolution tools and powers referred to in the directive include certain tools and powers which overlap in part with those available under the Credit Institutions Supervision Law and also certain further tools, such as provision for authorities to bail-in eligible liabilities of relevant institutions. The proposed directive is not in final form and it is likely that changes will be made to it in the course of the corresponding legislative procedure. As such, it is too early to anticipate the full impact of the directive and there can be no assurance that Covered Bondholders will not be adversely affected by an action taken under it, once it is agreed upon and implemented.

Other Cover Pool Creditors and subordination

The Conditions provide, in accordance with the Covered Bonds Legislation, that certain other creditors of the Issuer also have recourse against the Special Estate. These include the Representative, any Hedging Counterparty, any Liquidity Facility Provider, the Cover Pool Administrator as well as the other Other Cover Pool Creditors (as defined in Condition 1 (*Interpretation*)).

Moreover, in accordance with the Post-Event of Default Priority of Payments and the Early Redemption Priority of Payments (see Condition 9 (*Priorities of Payment*)), the claims of the Covered Bondholders may be subordinated to the claims of the Representative, the Cover Pool Monitor, the Cover Pool Administrator and the other Other Cover Pool Creditors and will rank *pari passu* with the claims of any Hedging Counterparty and any Liquidity Facility Provider (subject to certain exceptions). As a result, it is possible

that none or only part of the proceeds of the Special Estate are applied in satisfaction of amounts due and payable to the Covered Bondholders which may result in a loss to Covered Bondholders.

This risk is to some extent mitigated by the Statutory Tests (see section headed “*Summary of the Belgian covered bonds*”).

Covered Bondholders may not immediately accelerate the Covered Bonds upon a breach of the Statutory Tests or an Issuer’s bankruptcy

Covered Bondholders should be aware that the breach of the Statutory Tests and the opening of bankruptcy proceedings with respect to the Issuer will not give them the right to declare the Covered Bonds immediately due and payable. Covered Bonds which have not yet reached their maturity will not automatically accelerate as a result of a breach of the Statutory Tests or the opening of a bankruptcy procedure against the Issuer, without prejudice to an early repayment of the Covered Bonds and liquidation of the Special Estate pursuant to Article 64/16, 6° and 7° of the Credit Institutions Supervision Law (see section *Summary of the Belgian Covered Bonds Legislation*).

The NBB may appoint a Cover Pool Administrator in certain circumstances including (a) upon the adoption of a reorganisation measure against the Issuer if such measure, in the opinion of the NBB, may negatively affect the Covered Bondholders, (b) upon the initiation of bankruptcy proceedings against the Issuer, (c) upon the removal of the Issuer from the list of Belgian covered bonds issuers, or (d) in circumstances where the situation of the Issuer is such that it may seriously affect the interest of the Covered Bondholders.

Upon appointment, the Cover Pool Administrator will manage the Special Estate with a view to satisfy the obligations in relation to the Covered Bonds as provided for in the Conditions. The Cover Pool Administrator is legally entrusted with all necessary and relevant powers to manage the Special Estate.

On the initiation of bankruptcy proceedings against the Issuer, the Cover Pool Administrator may also in certain circumstances proceed with the liquidation of the Special Estate and with the early repayment of the Covered Bonds. This is where the Cover Assets are not sufficient or risk not being sufficient to satisfy the obligations under the Covered Bonds (subject to approval by the NBB) or when a decision to that effect has been taken at a Meeting of Covered Bondholders at which at least two thirds of the principal amount of all Covered Bonds of all Series is represented.

Other than pursuant to an Event of Default under Condition 8 (*Events of Default and Enforcement*) or pursuant to Article 64/16, 7° of the Credit Institutions Supervision Law, the Covered Bondholders cannot direct an acceleration of the Covered Bonds.

Belgian bankruptcy proceedings

If bankruptcy proceedings were commenced against the Issuer in Belgium, a receiver would be appointed over the Issuer in Belgium. However, this would not affect the ability of the Cover Pool Administrator to manage the Special Estate to the exclusion of the Issuer and the insolvency administrator. The Cover Pool Administrator is legally entrusted with all necessary and relevant powers to manage the Special Estate. The purpose of such management is to ensure compliance with the obligations under the Covered Bonds in accordance with the Conditions.

If bankruptcy proceedings are opened against the Issuer, the proceedings are limited to the General Estate of the Issuer; the Special Estate and the debts and obligations it covers do not form part of the bankruptcy estate of the Issuer. The proceedings do not cause the obligations and debts of the Special Estate to become due and payable.

In relation to a bankruptcy of the Issuer, the Credit Institutions Supervision Law incorporated Directive 2001/24/EC of the European Parliament and of the Council of April 2001 on the reorganisation and winding up of credit institutions (the **Credit Institutions Insolvency Directive**) into Belgian law. The Credit Institutions Insolvency Directive applies to credit institutions and their branches set up in Member States other than those in which they have their head offices, as defined in Directive 2000/12/EC, subject to the conditions and exemptions laid down in the Credit Institutions Insolvency Directive. Only the administrative

or judicial authorities of the home member state which are responsible for winding-up are empowered to decide on the opening of winding up proceedings.

Pursuant to the Covered Bonds Legislation, a receiver has a legal obligation to co-operate with the NBB and the Cover Pool Administrator in order to enable them to manage the Special Estate in accordance with the Covered Bonds Legislation. There may be certain practical difficulties in this respect which may cause a delay in the execution of the obligations of the Special Estate towards the Covered Bondholders and the Other Cover Pool Creditors.

Liquidation of the Special Estate

In case the Special Estate is liquidated, the positive balance on closing of the liquidation (ie. amounts realised from such liquidation which are not required to meet the claims on the Special Estate) automatically forms part of the General Estate. This means that Cover Assets that are part of the Special Estate in principle only return to the General Estate once all Covered Bonds are repaid in full. However, on the initiation of bankruptcy proceedings against the Issuer, an insolvency administrator is entitled, after consultation with the NBB, to require that the assets, that are with certainty no longer necessary as Cover Assets, return to the General Estate. The preparatory works of the Covered Bonds Law specify that the determination as to whether certain cover assets constitute a surplus that is not necessary for the payment of the covered bondholders must take place in consultation with the NBB and must take into account not only the regulatory requirements but also, as the case may be, the maintenance of the ratings assigned by external credit ratings agencies. Even so, this would affect the value of the Special Estate and there can be no assurance that it would not affect the repayment of the Covered Bonds.

Commingling Risk

In the event of bankruptcy of the Issuer, the ability of the assets comprising the Special Estate to generate funds to make timely payments on the Covered Bonds will in part depend on whether the Special Estate has been maintained in compliance with the statutory requirements (see section headed “*Summary description of the Belgian covered bonds legislation*”). To the extent that the bank accounts into which collections in respect of the Special Estate are paid or where funds are otherwise held for the Special Estate are held with the Issuer, a commingling risk cannot, as a practical matter, be excluded. This risk is mitigated to some extent by the revindication mechanism provided in Article 64/8 of the Credit Institutions Supervision Law pursuant to which the property rights over any amounts that are part of the Special Estate but that cannot be identified as such in the General Estate, are transferred by operation of law to other unencumbered assets in the General Estate selected in accordance with the criteria specified in Condition 12.1 (*Criteria for the transfer of assets by the General Estate to the Special Estate*).

Nevertheless, to the extent that certain underlying debtors are not notified on time or otherwise continue to make payments to the Issuer accounts or to the extent that cash may not be able to be withdrawn from such accounts in such circumstances, the Special Estate or the Cover Pool Administrator, as the case may be, may not be in a position to make timely payments. This risk is mitigated to some extent by the undertaking of the Issuer that it will ensure that the Special Estate will at all times include liquid bonds, meeting certain specified criteria, that have a market value which is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months (See Condition 2.6 (*Issuer Undertaking*)).

However, to the extent that there are not enough unencumbered assets available for purposes of revindication as set out above, the Covered Bonds may be repaid later than expected or not at all.

Set-off risk

Under Belgian law, legal set-off occurs where two persons hold claims against each other, provided, in general, that their debts exist, are fungible, liquid (*vaststaand/liquide*) and due (*opeisbaar/exigible*). As a result, set-off rights may arise in respect of cross-claims between an underlying debtor of a Residential Mortgage Loan and the Issuer, potentially reducing amounts receivable by the Special Estate.

Pursuant to the Mobilisation Law, the underlying debtor may no longer invoke set-off of the debt with any claim that would arise after, or in respect of which the conditions for legal set-off would not met prior to, the earlier of (i) the notification of the registration/transfer of the loan to the Special Estate or (ii) the opening of bankruptcy proceedings against the Issuer.

The Special Estate may nevertheless still be subject to the rights of the underlying debtors of Residential Mortgage Loans to invoke set-off against the Special Estate to the extent that the relevant claims against the Issuer arise, or the conditions for set-off against the Issuer are met, prior to the earlier of (i) the notification of the registration of the loan or (ii) the opening of bankruptcy proceedings against the Issuer. The exercise of set-off rights by underlying debtors may adversely affect the value of the Special Estate, may additionally affect any sale proceeds of the Special Estate and may ultimately affect the ability of the Issuer or the Cover Pool Administrator, as applicable, to make payments under the Covered Bonds.

Mortgage mandates

Pursuant to the Covered Bonds Legislation, a Residential Mortgage Loan which is partly secured by a mortgage mandate may be included in the Special Estate. Subject to certain valuation rules (see section *Summary of the Belgian Covered Bonds Legislation*), the amounts secured by the mortgage mandate may be taken into account for purposes of the Cover Tests.

Investors should be aware that such mortgage mandate is not a security and that it will only provide a security interest once the mandate has been exercised and a mortgage has been registered. Accordingly, prior to such exercise, the Special Estate will not benefit from any security in respect of that portion of a Residential Mortgage Loan covered by the mortgage mandate. Moreover, in certain circumstances as further set out below, exercise of a mandate may no longer be possible or may no longer result in valid and effective security.

The following limitations, amongst others, exist in relation to the conversion of mortgage mandates:

- (a) the Borrower or the third party collateral provider that has granted a mortgage mandate, may grant a mortgage to a third party that will rank ahead of the mortgage to be created pursuant to the conversion of the mortgage mandate, although this would generally constitute a contractual breach of the standard loan documentation;
- (b) if a conservatory or an executory attachment of the real property covered by the mortgage mandate has been filed by a third party creditor of the borrower or, as the case may be, of the third party collateral provider, a mortgage registered pursuant to the exercise of the mortgage mandate after the writ of attachment has been recorded at the mortgage register, will not be enforceable against the creditor who filed the attachment;
- (c) if the borrower or the third party collateral provider is a merchant:
 - (i) the mortgage mandate can no longer be converted following the bankruptcy of the borrower or, as the case may be, the third party collateral provider and any mortgage registered at the mortgage register after the bankruptcy judgment is void; and
 - (ii) a mortgage registered at the mortgage register pursuant to the exercise of a mortgage mandate during the pre-bankruptcy investigation period (ie after the date of cessation of payments that may be fixed by the court) for a pre-existing loan will not be enforceable against the bankrupt estate. Under certain circumstances, the clawback rules are not limited in time, for example where a mortgage has been granted pursuant to a mortgage mandate and in order to “fraudulently prejudice” creditors; and
 - (iii) mortgages registered after the day of cessation of payments of debt can be declared void by the bankruptcy court, if the registration was made more than 15 days after the creation of the mortgage; and
 - (iv) the effect of a judicial reorganisation (*gerechtelijke reorganisatie/réorganisation judiciaire*) of a borrower or of a third party collateral provider on the mortgage mandate is uncertain;

- (d) if the borrower or the third party collateral provider, as the case may be, is an individual (non-merchant) and started collective debt settlement proceedings, a mortgage registered at the mortgage register after the court has declared the request admissible, is not enforceable against the other creditors of the borrower or of the third party collateral provider;
- (e) besides the possibility that the borrower or the third party collateral provider may grant a mortgage to another lender discussed above, the mortgage to be created pursuant to a mortgage mandate may also rank behind certain statutory mortgages (such as eg the statutory mortgage of the tax and the social security authorities) to the extent these mortgages are registered before the exercise of the mortgage mandate. In this respect, it should be noted that the notary involved in preparing the mortgage deed will need to notify the tax administration, and, as the case may be, the social security administration before finalising the mortgage deed pertaining to the creation of the mortgage;
- (f) if the borrower or the third party collateral provider, as the case may be, is an individual, certain limitations apply to the conversion of the mortgage mandate into a mortgage if the Borrower or third party collateral provider dies before the conversion; certain limitations also apply in case of a dissolution of the borrower or third party collateral provider that is a legal person.

In addition, prior to such exercise, third parties acting in good faith may register prior-ranking mortgages.

Once a mandate is exercised, the ensuing mortgage will rank at the highest level available at the time of registration of such mortgage.

To the extent that the mortgage secures any other loans made by the Issuer to the same grantor that are not included in the Special Estate, all proceeds received out of the enforcement of the mortgage will be applied in priority in satisfaction of the obligations under the relevant loans that are included in the Special Estate (see also Condition 12.3 (*Priority Rules regarding security interest securing both Cover Assets and assets in the General Estate*)).

Reliance on Hedging Counterparties

To provide a hedge against interest rate and/or other risks in respect of amounts received by the Issuer under the Residential Mortgage Loans forming part of the Cover Assets and under the other Cover Assets and the interest rate and amounts payable by the Issuer under the Covered Bonds, the Issuer may enter into a Hedging Agreement with a Hedging Counterparty in respect of a Series of Covered Bonds under a Hedging Agreement.

If the Issuer fails to make timely payments of amounts due under any Hedging Agreement, then it will have defaulted under that Hedging Agreement. A Hedging Counterparty is only obliged to make payments to the Issuer as long as the Issuer complies with its payment obligations under the relevant Hedging Agreement. If the Hedging Counterparty is not obliged to make payments or if it defaults on its obligations to make payments of amounts in the relevant currency equal to the full amount to be paid to the Issuer on the due date for payment under the relevant Hedging Agreement, the Issuer will be exposed to any changes in the relevant rates of interest. Unless a replacement swap is entered into, the Issuer may have insufficient funds to make payments under the Covered Bonds.

If a Hedging Agreement terminates, then the Issuer may be obliged to make a termination payment to the relevant Hedging Counterparty. There can be no assurance that the Issuer will have sufficient funds available to make a termination payment under the relevant Hedging Agreement, nor can there be any assurance that the Issuer will be able to enter into a replacement swap agreement, or if one is entered into, that the credit rating of the replacement swap counterparty will be sufficiently high to prevent a downgrade of the then current ratings of the Covered Bonds by a Rating Agency.

Following a decision of the Cover Pool Administrator to early redeem the Covered Bonds pursuant to Articles 64/16, 6° and 7° of the Credit Institutions Supervision Law or following the delivery of a Notice of Default and with respect to funds derived from the Special Estate, if the Issuer is obliged to pay a termination payment under any Hedging Agreement that constitutes a Cover Asset, such termination payment will rank *pari passu* with amounts due on the Covered Bonds, except where default by, or downgrade of, the relevant

Hedging Counterparty has caused the relevant Swap Agreement to terminate (See Condition 9 (*Priorities of Payment*)).

Differences in timings of obligations of the Issuer and the Hedging Counterparty under the Hedging Agreements

With respect to any Hedging Agreement that may be entered into by the Issuer, the Issuer will, periodically, pay or provide for payment of an amount to each corresponding Hedging Counterparty based on EURIBOR for Euro deposits for the agreed period. The Hedging Counterparty may not be obliged to make corresponding swap payments to the Issuer under a Hedging Agreement until amounts are due and payable by the Issuer under the Covered Bonds. If a Hedging Counterparty does not meet its payment obligations to the Issuer under the relevant Hedging Agreement or such Hedging Counterparty does not make a termination payment that has become due from it to the Issuer under the Hedging Agreement, the Issuer may have a shortfall in funds with which to make payments under the Covered Bonds. Hence, the difference in timing between the obligations of the Issuer and the obligations of the Hedging Counterparties under the Hedging Agreements may affect the Issuer's ability to make payments with respect to the Covered Bonds. A Hedging Counterparty may be required, pursuant to the terms of the relevant Hedging Agreement, to post collateral with the Issuer if the relevant rating of the Hedging Counterparty is downgraded by a Rating Agency below the rating specified in the relevant Hedging Agreement.

Conflicts of Interest

Where the Issuer acts as calculation agent, potential conflicts of interest may exist between the Issuer and Covered Bondholders.

The Calculation Agent is entitled to carry out a series of determinations which affect the Covered Bonds. Such determinations could have an adverse effect on the value of the Covered Bonds and on the amounts payable to investors under the Terms and Conditions of the Covered Bonds, whether in the case of an early redemption event or at maturity, giving rise to a potential conflict of interest in respect of the interests of the Covered Bondholders.

Conflict of interests may also exist between the Issuer and the Covered Bondholders where the Issuer acts as domiciliary and paying agent or as dealer.

Time subordination

The Issuer will be entitled to apply available funds in order to repay earlier maturing Series of Covered Bonds, which may mean that there may be fewer assets available to support later maturing Series of Covered Bonds.

Reliance on third parties

The Issuer has entered into agreements with a number of third parties which have agreed to perform services for the Special Estate. Such counterparties may not perform their obligations under the Programme Documents, which may result in the Special Estate not being able to meet its obligations under the Covered Bonds.

None of the third parties will have any obligation itself to advance payments that Borrowers fail to make in a timely fashion. Covered Bondholders will have no right to consent to or approve of any actions taken by such third parties.

Representative's powers may affect the interests of the Covered Bondholders

If there is at any time a conflict between a duty owed by the Representative to the Covered Bondholders and a duty owed by the Representative to any Other Cover Pool Creditor, then the Representative must have regard only to the interests of the Covered Bondholders while any of the Covered Bonds remain outstanding and will not be required to have regard to the interests of any Other Cover Pool Creditor or any other person

or to act upon or comply with any direction or request of any Other Cover Pool Creditor or any other person while any amount remains owing to any Covered Bondholders.

Where the Representative is required to have regard to the Covered Bondholders (or any Series thereof), it must have regard to the general interests of the Covered Bondholders (or any Series thereof) as a class and will not have regard to any interests arising from circumstances particular to individual Covered Bondholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular country, territory or any political subdivision thereof and the Representative will not be entitled to require, nor will any Covered Bondholder, be entitled to claim from, the Issuer, the Representative or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon individual Covered Bondholders, except to the extent already provided for in Condition 7. If, in connection with the exercise of its powers, trusts, authorities or discretions, the Representative is of the opinion that the interests of the holders of the Covered Bonds of any one or more Series could or would be materially prejudiced thereby, the Representative may determine that it will not exercise such power, trust, authority or discretion without the approval of such Covered Bondholders by Extraordinary Resolution. Provided that the Representative acts in good faith, as described in the foregoing, it will not incur any liability to any Other Cover Pool Creditor or any other person for so doing.

Factors which are material for the purpose of assessing the market risks associated with Covered Bonds issued under the Programme

Risks related to the market generally

Set out below is a brief description of certain market risks:

The Covered Bonds may not be a suitable investment for all investors

Each potential investor in the Covered Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Covered Bonds, the merits and risks of investing in the Covered Bonds and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement and all the information contained in the applicable Final Terms;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Covered Bonds and the impact the Covered Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Covered Bonds, including Covered Bonds with principal and/or interest payable in one or more currencies, or where the currency for principal and/or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Covered Bonds and be familiar with the behaviour of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Impact of fees, commissions and/or inducements on the Issue Price and/or offer price

Investors should note that the issue price and/or offer price of any issue of Covered Bonds may include subscription fees, placement fees, direction fees, structuring fees and/or other additional costs. Any such fees and/or other commissions and inducements will be disclosed to investors in the applicable Final Terms. Any such fees may not be taken into account for the purposes of determining the price of such Covered Bonds on

the secondary market and could result in a difference between the original issue price and/or offer price, the theoretical value of such Covered Bonds, and/or the actual bid/offer price quoted by any intermediary in the secondary market.

Any such difference may have an adverse effect on the value of Covered Bonds, particularly immediately following the offer and the issue date relating to such Covered Bonds, where any such fees and/or costs may be deducted from the price at which such Covered Bonds can be sold by the initial investor in the secondary market.

Market Value of Covered Bonds

The market value of an issue of Covered Bonds will be affected by a number of factors independent of the creditworthiness of the Issuer, including, but not limited to:

- (a) market interest and yield rates;
- (b) liquidity of the Covered Bonds in the secondary market;
- (c) the time remaining to any redemption date or the maturity date; and
- (d) economic, financial and political events in one or more jurisdictions, including factors affecting capital markets generally.

Absence of secondary market

There is not, at present, an active and liquid secondary market for the Covered Bonds, and no assurance is provided that an active and liquid secondary market for the Covered Bonds will emerge. The Arrangers are not obliged to and do not intend to make a market for the Covered Bonds. None of the Covered Bonds has been, or will be, registered under the Securities Act or any other applicable securities laws and they are subject to certain restrictions on the resale and other transfer thereof as set forth under “Subscription and Sale” and “Transfer and Selling Restrictions”. If a secondary market does emerge, it may not continue for the life of the Covered Bonds or it may not provide Covered Bondholders with liquidity of investment with the result that a Covered Bondholder may not be able to find a buyer to buy its Covered Bonds readily or at prices that will enable the Covered Bondholder to realise a desired yield.

The Issuer may, but is not obliged to, list an issue of Covered Bonds on a stock exchange or regulated market. If Covered Bonds are not listed or traded on any stock exchange or regulated market, pricing information for the relevant Covered Bonds may be more difficult to obtain and the liquidity of such Covered Bonds may be adversely affected, and therefore the price of the Covered Bonds could be affected by their limited liquidity.

If Covered Bonds are not listed or traded on a stock exchange or regulated market, they may be traded on trading systems governed by the laws and regulations in force from time to time (eg multilateral trading systems) or in other trading systems (eg bilateral systems, or equivalent trading systems). In the event that trading in such Covered Bonds takes place outside any such stock exchange, regulated market or trading systems, the manner in which the price of such Covered Bonds is determined may be less transparent and the liquidity of such Covered Bonds may be adversely affected. Investors should note that the Issuer does not grant any warranty to Covered Bondholders as to the methodologies used to determine the price of Covered Bonds which are traded outside a trading system, however, where the Issuer or any of its affiliates determines the price of such Covered Bonds, it will take into account the market parameters applicable at such time in accordance with applicable provisions of law. Even if Covered Bonds are listed and/or admitted to trading, this will not necessarily result in greater liquidity.

Each of the Issuer and any Dealer may, but is not obliged to, at any time purchase Covered Bonds at any price in the open market or by tender or private agreement. Any Covered Bonds so purchased may be held or resold or surrendered for cancellation. If any Covered Bonds are redeemed in part, then the number of Covered Bonds outstanding will decrease, which will reduce liquidity for the outstanding Covered Bonds. Any such activities may have an adverse effect on the price of the relevant Covered Bonds in the secondary market and/or the existence of a secondary market.

Any Dealer or any of its affiliates may, but is not obliged to, be a market maker, liquidity provider, specialist or bid intermediary, for an issue of Covered Bonds. Even if a Dealer is a market-maker, liquidity provider, specialist or bid intermediary for an issue of Covered Bonds, the secondary market for such Covered Bonds may be limited and there is no assurance given as to the price offered by a market-maker, liquidity provider, specialist or bid intermediary or the impact of any such quoted prices on those available in the wider market and any such activities may be affected by legal restrictions in certain jurisdictions.

The appointment of an entity acting as a market maker, liquidity provider, specialist or bid intermediary with respect to the Covered Bonds, may, under certain circumstances, have a relevant impact on the price of the Covered Bonds in the secondary market.

If it is possible to sell Covered Bonds, they would be sold for the prevailing bid price in the market and may be subject to a transaction fee. The prevailing bid price may be affected by several factors including prevailing interest rates at the time of sale, the time remaining to the stated maturity date, the creditworthiness of the Issuer and factors affecting the capital markets generally. The introduction of additional or competing products in the market may also have a negative effect on the price of any Covered Bonds. It is therefore possible that an investor selling Covered Bonds in the secondary market may receive substantially less than their original purchase price.

In addition, Covered Bondholders should be aware of the prevailing and widely reported global credit market conditions (which continue at the date hereof), whereby there is a general lack of liquidity in the secondary market for instruments similar to the Covered Bonds. As a result of the current liquidity crisis, there exist significant additional risks to the Issuer and the investors which may affect the returns on the Covered Bonds to investors.

In addition, the current liquidity crisis has stalled the primary market for a number of financial products including instruments similar to the Covered Bonds. While it is possible that the current liquidity crisis may soon alleviate for certain sectors of the global credit markets, there can be no assurance that the market for securities similar to the Covered Bonds will recover at the same time or to the same degree as such other recovering global credit market sectors.

Limited liquidity in the secondary market in mortgage loans and mortgage backed securities

The secondary mortgage markets are currently experiencing severe disruptions resulting from reduced investor demand for mortgage loans and mortgage-backed securities and increased investor yield requirements for those loans and securities. As a result, the secondary market for mortgage loans and mortgage-backed securities is experiencing extremely limited liquidity. These conditions may continue or worsen in the future. This may, amongst other things, affect the ability of the Issuer, or the Cover Pool Administrator, to obtain timely funding to fully redeem maturing Series with the sale proceeds of Cover Assets.

Limited liquidity in the secondary market for mortgage-backed securities has had a severe adverse effect on the market value of mortgage-backed securities (including Covered Bonds). Limited liquidity in the secondary market may continue to have a severe adverse effect on the market value of mortgage-backed securities, especially those securities that are more sensitive to prepayment, credit or interest rate risk and those securities that have been structured to meet the investment requirements of limited categories of investors. Consequently, an investor in the Covered Bonds may not be able to sell its Covered Bonds readily. The market values of the Covered Bonds are likely to fluctuate and may be difficult to determine. Any of these fluctuations may be significant and could result in significant losses to such investor.

In addition, the forced sale into the market of mortgage-backed securities held by structured investment vehicles, hedge funds, issuers of collateralised debt obligations and other similar entities that are currently experiencing funding difficulties could adversely affect an investor's ability to sell, and/or the price an investor receives for, the Covered Bonds in the secondary market.

Counterparty risk exposure

The ability of the Issuer to make payments under the Covered Bonds is subject to general credit risks, including credit risks of Borrowers. Third parties that owe the Issuer money, securities or other assets may not pay or perform under their obligations. These parties include borrowers under loans granted, trading counterparties, counterparties under swaps and credit and other derivative contracts, agents and other financial intermediaries. These parties may default on their obligations to the Issuer due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons.

Extendable obligations under the Covered Bonds

An Extended Final Maturity Date will apply to each Series of Covered Bonds. The Issuer's obligations under the relevant Covered Bonds to pay the Principal Amount Outstanding on the relevant Final Maturity Date shall be deferred past the Final Maturity Date until the Extended Final Maturity Date (as specified in the Final Terms) (such date the **Extended Final Maturity Date**) if the Issuer fails to pay the Final Redemption Amount on the Final Maturity Date (subject to applicable grace period). Such deferral will occur automatically if the Issuer fails to pay any amount representing the amount due within fourteen Business Days after the Final Maturity Date as set out in the Final Terms (the **Final Redemption Amount**) in respect of the relevant Series of Covered Bonds provided that, any amount representing the Final Redemption Amount due and remaining unpaid within fourteen Business Days after the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date. Between the Final Maturity Date and the Extended Final Maturity Date, the Interest Payment Dates will occur monthly. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Final Maturity Date in accordance with the Conditions and the Issuer will make payments on each relevant Interest Payment Date and Extended Final Maturity Date.

The extension of the maturity of the Final Redemption Amount of the Covered Bonds from the Final Maturity Date to the Extended Final Maturity Date will not result in any right of the Covered Bondholders to accelerate payments or take action against the Special Estate and no payment will be payable to the Covered Bondholders in that event other than as set out in the applicable Final Terms. The payment of the Final Redemption Amount shall become due and payable on the Extended Final Maturity Date as specified in the applicable Final Terms.

Covered Bondholders should also note that an extension of the maturity of a particular Series of Covered Bonds will not automatically trigger an extension of the maturity date of any other Series.

If the Covered Bonds are not redeemed in full on the relevant Extended Final Maturity Date, then the Representative may serve a Notice of Default on the Issuer pursuant to the Conditions. Following the service of a Notice of Default, (a) no further Covered Bonds will be issued and (b) the Covered Bonds of each Series shall become immediately due and payable.

The provisions on extendable obligations under the Covered Bonds shall only apply if the Issuer has insufficient funds available to redeem Covered Bonds in full on the relevant Final Maturity Date (or within fourteen Business Days thereafter).

Risks related to the structure of a particular issue of Covered Bonds

A wide range of Covered Bonds may be issued under the Programme. A number of these Covered Bonds may have features which contain particular risks for potential investors. Set out below is a description of the most common such features:

Covered Bonds where Maximum Rate of Interest applies

Covered Bonds where a Maximum Rate of Interest applies, have an interest rate that is subject to a maximum specified rate. The maximum amount of interest payable in respect of these Covered Bonds will occur when the sum of the relevant reference rate and the specified margin (if any) equals the maximum specified rate. Investors in such Covered Bonds will therefore not benefit from any increase in the relevant reference rate

which, when the specified margin is added to such reference rate, would otherwise cause such interest rate to exceed the maximum specified rate. The market value of these Covered Bonds would therefore typically fall the closer the sum of the relevant reference rate and the margin is to the maximum specified rate.

Interest rate risks

Investment in Fixed Rate Covered Bonds involves the risk that subsequent changes in market interest rates may adversely affect the value of the Fixed Rate Covered Bonds.

Floating Rate Covered Bonds

A key difference between Floating Rate Covered Bonds and Fixed Rate Covered Bonds is that interest income on Floating Rate Covered Bonds cannot be anticipated. Due to varying interest income, investors are not able to determine a definite yield of Floating Rate Covered Bonds at the time they purchase them, so that their return on investment cannot be compared with that of investments having fixed interest periods. If the Final Terms of the Covered Bonds provide for frequent interest payment dates, investors are exposed to the reinvestment risk if market interest rates decline, because investors may reinvest the interest income paid to them only at the relevant lower interest rates then prevailing.

Zero Coupon Covered Bonds

Changes in market interest rates have a substantially stronger impact on the prices of Zero Coupon Covered Bonds than on the prices of ordinary Covered Bonds because the discounted issue prices are substantially below par. If market interest rates increase, Zero Coupon Covered Bonds can suffer higher price losses than other Covered Bonds having the same maturity and credit rating. Due to their leverage effect, Zero Coupon Covered Bonds are a type of investment associated with a particularly high price risk.

Covered Bonds issued at a substantial discount or premium

The market values of securities issued at a substantial discount (such as Zero Coupon Covered Bonds) or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Covered Bonds not contemplated by the Base Prospectus

The Issuer may from time to time issue Covered Bonds under the Programme in any form agreed by the Issuer from time to time and the relevant Dealer or investor. These Covered Bonds will be subject to terms and conditions and final terms which may be agreed with the Issuer at the time of their issuance. The issuance of these Covered Bonds is subject to compliance with the Programme Common Terms Agreement, which contains certain terms to which all Covered Bonds issued under the Programme will be subject. The Programme Common Terms may be amended in accordance with the provisions of the Programme Common Terms Agreement. The issuance of these Covered Bonds is also subject to the Covered Bonds Legislation (see also *Summary of the Belgian Covered Bonds Legislation*). The Covered Bondholders should note that all Covered Bonds will rank *pari passu* among themselves and that, as a result, the proceeds of the Special Estate will be applied to the satisfaction of amounts due and payable to all Covered Bondholders on a *pro rata* basis.

Risks related to Covered Bonds generally

Set out below is a brief description of certain risks relating to the Covered Bonds generally:

Belgian Covered Bonds Legislation and Change of Law

The Covered Bonds Legislation came into force in October 2012. The transactions contemplated in this Base Prospectus are based on and subject to the provisions of the Belgian Covered Bonds Legislation. So far as the Issuer is aware, as at the date of this Base Prospectus there are no Belgian covered bonds outstanding based upon the Belgian Covered Bonds Legislation and there has been no judicial authority as to the interpretation of any of the provisions of the Belgian Covered Bonds Legislation. It is consequently uncertain how the Covered Bonds Regulations will be interpreted or applied or whether changes or amendments, affecting the Covered Bonds, will be made to it.

For further information on the Belgian Covered Bonds Legislation, see Summary of the Belgian Covered Bonds Legislation. There are a number of aspects of Belgian law which are referred to in this Base Prospectus with which potential Covered Bondholders are likely to be unfamiliar. Particular attention should be paid to the sections of this Base Prospectus containing such references.

The Covered Bonds are based on Belgian law in effect as at the date of issuance of the relevant Covered Bonds. No assurance can be given as to the impact of any possible judicial decision or change to Belgian law or administrative practice after the date of issuance of the relevant Covered Bonds.

In addition, any relevant tax law or practice applicable as at the date of this Base Prospectus and/or the date of purchase or subscription of the Covered Bonds may change at any time (including during any subscription period or the term of the Covered Bonds). Any such change may have an adverse effect on a Covered Bondholder, including that the Covered Bonds may be redeemed before their due date, their liquidity may decrease and/or the tax treatment of amounts payable to or receivable by an affected Covered Bondholder may be less than otherwise expected by such Covered Bondholder.

Implementation of and/or changes to the framework adopted by the Basel Committee may affect the capital requirements and/or the liquidity associated with a holding of the Covered Bonds for certain investors

In 1988, the Basel Committee on Banking Supervision (the **Basel Committee**) adopted capital guidelines that explicitly link the relationship between a bank's capital and its credit risks. In June 2006 the Basel Committee finalised and published new risk-adjusted capital guidelines (**Basel II**). Basel II includes the application of risk-weighting which depends upon, amongst other factors, the external or, in some circumstances and subject to approval of supervisory authorities, internal credit rating of the counterparty. The revised requirements also include allocation of risk capital in relation to operational risk and supervisory review of the process of evaluating risk measurement and capital ratios.

Basel II has not been fully implemented in all participating jurisdictions. The implementation of the framework in relevant jurisdictions may affect the risk-weighting of the Covered Bonds for investors who are or may become subject to capital adequacy requirements that follow the framework. The Basel II framework is implemented in the European Union by the Capital Requirements Directive.

It should also be noted that the Basel Committee has approved significant changes to the Basel II framework (such changes being commonly referred to as **Basel III**) and on 1 June 2011 issued its final standards which envisages a substantial strengthening of existing prudential rules, including new requirements intended to reinforce capital standards and to establish minimum liquidity standards and a leverage ratio "backstop" for financial institutions. In particular, the changes include, amongst other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (referred to as the Liquidity Coverage Ratio and the Net Stable Funding Ratio). Member countries will be required to implement the new capital standards from January 2013, the new Liquidity Coverage Ratio from January 2015 and the Net Stable Funding Ratio from January 2018. The Basel Committee also intends to introduce additional capital requirements for global systemically important banks from 2016 and published rules outlining the relevant requirements in November 2011. The changes approved by the Basel Committee may have an impact on the capital requirements in respect of the Covered Bonds

and/or on incentives to hold the Covered Bonds for investors that are subject to requirements that follow the revised framework and, as a result, they may affect the liquidity and/or value of the Covered Bonds.

The European authorities support the work of the Basel Committee on the approved changes in general and, on 20 July 2011, the European Commission published a legislative package of proposals (known as **CRD IV**) to implement the changes through the replacement of the existing Capital Requirements Directive with a new Directive and Regulation. As with Basel III, the proposals contemplate the entry into force of the new legislation from January 2013, with full implementation by January 2019; however the proposals allow individual Member States to implement the stricter definition and/or level of capital more quickly than is envisaged under Basel III. It is not clear at this point when the CRD IV proposals will be adopted in final form.

In general, investors should consult their own advisers as to the regulatory capital requirements in respect of the Covered Bonds and as to the consequences for and effect on them of any changes to the Basel II framework (including the Basel III changes described above) and the relevant implementing measures. No predictions can be made as to the precise effects of such matters on any investor or otherwise.

Limited description of the Special Estate

Other than receipt of the Investor Report, the Covered Bondholders will not receive detailed statistics or information in relation to the Cover Assets in the Special Estate because it is expected that the constitution of the Special Estate will frequently change due to, for instance:

- (a) the Issuer allocating additional Cover Assets to the Special Estate; and
- (b) the Issuer removing Cover Assets from the Special Estate or substituting existing Cover Assets in the Special Estate with additional Cover Assets.

There is no assurance that the characteristics of the Cover Assets allocated to the Special Estate on the relevant Issue Date will be the same as those Cover Assets in the Special Estate as at any date thereafter. However, each Cover Asset will be required to meet the requirements of the Covered Bonds Legislation. In addition, the Statutory Tests (and the Issuer's obligations to remedy breaches of the Statutory Tests) are intended to ensure that the value of the Special Estate as determined in accordance with the Covered Bonds Legislation is greater than the Principal Amount Outstanding of the Covered Bonds covered by the Special Estate (although there is no assurance that it will do so). The Cover Pool Monitor must at least once a month verify whether the Statutory Tests and the requirements in relation to the Register of Cover Assets are met. The Cover Pool Monitor must immediately inform the NBB if it establishes that the Issuer no longer satisfies the requirements. The Cover Pool Monitor must report to the NBB on a monthly basis on the performance of the procedures and the results thereof.

Ratings of the Covered Bonds

The expected credit ratings of the Covered Bonds, if applicable, are set out in the applicable Final Terms for each Series of Covered Bonds.

The credit ratings that may be assigned to the Covered Bonds (where applicable) address:

- the likelihood of full and timely payment to Covered Bondholders of all payments of interest on each Interest Payment Date;
- the likelihood of ultimate payment of principal in relation to Covered Bonds on the Extended Final Maturity Date thereof; and
- (in relation to Fitch) their probability of default but also incorporate an element of recovery should default occur. Credit ratings assigned by Fitch exclude event risk, such as a change in legislation governing a jurisdiction's covered bond framework, or the merger of an issuer with another entity.

There is no guarantee that ratings will be assigned or maintained.

A Rating Agency may lower its rating or withdraw its rating if, in the sole judgment of that Rating Agency, the credit quality of the Covered Bonds has declined or is in question. If any credit rating assigned to the Covered Bonds is lowered or withdrawn, the market value of the Covered Bonds may reduce. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Covered Bonds.

CRA Regulation

In general, European regulated investors are restricted under the CRA Regulation (as defined on the cover page of this Base Prospectus) from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list. Certain information with respect to the credit rating agencies and ratings will be disclosed in the applicable Final Terms.

Covered Bonds issued under the Programme

Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms to an existing Series of Covered Bonds (in which case they will constitute a new Series). All Covered Bonds will rank *pari passu* and pro rata without any preference or priority among themselves, irrespective of their Series.

Following the occurrence of an Event of Default and service by the Representative of a Notice of Default, the Covered Bonds of all outstanding Series will become immediately due and payable against the Issuer.

A Cover Pool Administrator appointed by the NBB in the circumstances described in the Covered Bonds Legislation may also in certain circumstance proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds. This is where following the initiation of a bankruptcy procedure against the Issuer, the Cover Assets are not, or risk not being, sufficient to satisfy the obligations under the Covered Bonds (subject to approval by the NBB) or when a majority decision has been taken to this effect at a meeting of Covered Bondholders at which at least two thirds of the aggregate principal amount of all Covered Bonds of all Series then outstanding is represented.

Modification, waivers and substitution

The Conditions contain provisions for calling meetings of Covered Bondholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Covered Bondholders including Covered Bondholders who did not attend and vote at the relevant meeting and Covered Bondholders who voted in a manner contrary to the majority.

The Representative may agree to modifications to the Conditions without the Covered Bondholders' prior consent

Pursuant to the Conditions and the terms of the Representative Appointment Agreement, the Representative may, without the consent or sanction of any of the Covered Bondholders or any of the other Other Cover Pool Creditors concur with the Issuer or any person in making or sanctioning any modification to the Conditions:

- provided that the Representative is of the opinion that such modification, waiver or authorisation will not be materially prejudicial to the interests of any of the Covered Bondholders; or
- which in the sole opinion of the Representative is of a formal, minor or technical nature or is to correct a manifest error or to comply with mandatory provisions of law.

Certain decisions of Covered Bondholders taken at Programme level

Any Resolution to direct the Representative to serve a Notice of Default on the Issuer must be passed at a single meeting of the holders of all Covered Bonds of all Series then outstanding (see Condition 8.1 (*Events of Default*)).

Early redemption

The Conditions provide for an early redemption of the Covered Bonds in the case of an illegality or tax gross-up. Investors that choose to reinvest moneys they receive through an early redemption may be able to do so only in securities with a lower yield than the redeemed Covered Bonds. Potential investors should consider reinvestment risk in light of other investments available at that time.

Moreover, following the opening of bankruptcy proceedings against the Issuer, the Cover Pool Administrator may in certain circumstances proceed with the liquidation of the Special Estate and early redemption of the Covered Bonds (see section *Summary of the Belgian Covered Bonds Legislation*). There is a risk that, in such circumstances, the proceeds from the liquidation of the Special Estate will not be sufficient to cover the Early Redemption Amount due under the Covered Bonds and that Covered Bondholders or the Representative on their behalf will have to introduce a contingent unsecured claim against the Issuer's general bankruptcy estate in order to preserve their recourse against the General Estate.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (a) Covered Bonds are legal investments for it, (b) Covered Bonds can be used as collateral for various types of borrowing and (c) other restrictions apply to its purchase or pledge of any Covered Bonds. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Covered Bonds under any applicable risk-based capital or similar rules.

Prospective investors who consider purchasing any Covered Bonds should reach an investment decision only after carefully considering the suitability of such Covered Bonds in light of their particular circumstances.

Moreover, mismatches are possible in the rates of interest received on the Cover Assets and the rates of interest payable under Covered Bonds.

Covered Bonds in dematerialised form

The Covered Bonds may be issued in the form of dematerialised bonds under the Belgian Company Code and will be represented exclusively by book entries in the records of the Securities Settlement System.

Access to the Securities Settlement System is available through participants in the Securities Settlement System whose membership extends to securities such as the Covered Bonds (the **Participants**). Participants include certain Belgian banks, stock brokers (*beursvennootschappen/sociétés de bourse*), Clearstream and Euroclear Bank.

Transfers of interests in the Covered Bonds will be effected between the Participants in accordance with the rules and operating procedures of the Securities Settlement System. Transfers between investors will be effected in accordance with the respective rules and operating procedures of the Participants through which they hold their Covered Bonds.

The Issuer and the Domiciliary Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Participants of their obligations under their respective rules and operating procedures.

Illegality

In the event that the Issuer determines that the performance of the Issuer's obligations under a Series of Covered Bonds has or will become unlawful, illegal or otherwise prohibited in whole or in part, the Issuer may redeem all, but not some only, of the Covered Bonds of such Series in accordance with the "*Terms and Conditions of the Covered Bonds*" below.

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to (or for the benefit of) an individual resident in that other Member State or to (or for the benefit of) certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented amend or broaden the scope of the requirements described above.

If a payment to an individual were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to such Directive, neither the Issuer nor any Agent nor any other person would be obliged to pay additional amounts with respect to any Covered Bond as a result of the imposition of such withholding tax. The Issuer is required to maintain a paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Investors who are in any doubt as to their position should consult their own professional advisers.

EU Crisis Management Framework

The European Commission has launched a (provisional) legislative proposal on crisis management in the financial sector on 6 June 2012, which includes a debt write-down tool in addition to other resolution tools. The debt write-down tool is meant to keep a stressed bank as a going concern or to fund the break-up of a failing bank by granting the power to the regulators to write down debt of the bank (or to convert such debt into equity). The resolution powers provide a means to restructure and wind down a failing credit institution, as an alternative to bankruptcy.

Furthermore, on 2 October 2012, a high-level expert group presided by Mr Liikanen presented its report to the European Commission on reforming the structure of the EU banking sector (the **Liikanen Report**). The Liikanen Report contains various proposals, including in respect of bail-in debt.

It is at this stage uncertain if the EU proposal will be adopted and if so, when and in what form. Similarly, it is at this stage uncertain whether and how the EU Commission will incorporate the proposals made by the Liikanen Report. If the EU proposal or certain elements of the Liikanen Report were to be adopted, this could negatively affect the position of Covered Bondholders.

U.S. Foreign Account Tax Compliance Withholding

The Issuer and other financial institutions through which payments on the Covered Bonds are made may be required to withhold U.S. tax at a rate of 30% on all, or a portion of, payments made after 31 December 2016 in respect of (a) any Covered Bonds characterized as debt (or which are not otherwise characterized as equity and have a fixed term) for U.S. federal tax purposes that are issued or materially modified after the date that is six months after the date on which final U.S. Treasury regulations under FATCA (as defined below) defining the term “foreign passthru payment” are published (the **grandfathering date**) and (b) any Covered Bonds characterized as equity or which do not have a fixed term for U.S. federal tax purposes, whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code or similar law implementing an intergovernmental approach thereto (**FATCA**). In addition, if Covered Bonds are issued before the grandfathering date and additional Covered Bonds of the same series are issued after the grandfathering date, the additional Covered Bonds may not be treated as exempt from FATCA withholding, which may have negative consequences to the existing Covered Bonds, including a negative impact on market price.

This withholding tax may be triggered if (a) the Issuer is a foreign financial institution (**FFI**) (as defined in FATCA) that is required pursuant to FATCA to report to the U.S. Internal Revenue Service (**IRS**) or other applicable authority certain information on its account holders (making the Issuer a **Participating FFI**) and (b)(i) an investor does not provide information sufficient for the relevant Participating FFI to determine whether or the extent to which the investor is subject to withholding under FATCA or (ii) any FFI through or to which payment on such Covered Bonds is made, is not a Participating FFI or otherwise exempt from or in deemed-compliance with FATCA.

The application of FATCA to interest, principal or other amounts paid with respect to the Covered Bonds is not clear. If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Covered Bonds, neither the Issuer nor any paying agent nor any other person would, pursuant to the conditions of the Covered Bonds, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may, if FATCA is implemented as currently proposed by the IRS, receive less interest or principal than expected. Holders of Covered Bonds should consult their own tax advisers on how these rules may apply to payments they receive under the Covered Bonds.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on proposed regulations and official guidance that is subject to change. The application of FATCA to Covered Bonds issued or materially modified after the grandfathering date (or whenever issued, in the case of Covered Bonds characterized as equity for U.S. federal tax purposes) may be addressed in the applicable Final Terms or a Supplement to the Base Prospectus, as applicable.

Taxation

Potential purchasers and sellers of Covered Bonds should be aware that they may be required to pay taxes or documentary charges or other duties in accordance with the laws and practices of the country where the Covered Bonds are transferred and/or any relevant assets are delivered.

Potential purchasers are advised not to rely upon the tax summary contained in this Base Prospectus but to consult their own independent tax advisers on their individual taxation with respect to the acquisition, holding, sale and redemption of the Covered Bonds. Only these advisers are in a position to duly consider the specific situation of the potential investor. In addition, potential purchasers should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. This risk factor has to be read in connection with the taxation sections of this Base Prospectus.

GENERAL DESCRIPTION OF THE PROGRAMME

*The following overview (the **Overview**) does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Series or Tranche of Covered Bonds, the applicable Final Terms. The Issuer and any relevant Dealer may agree that Covered Bonds shall be issued in a form other than that contemplated in the Terms and Conditions, in which event, in the case of any Covered Bonds which are intended to be admitted to trading on a regulated market within the European Economic Area (EEA) or offered to the public in an EEA Member State in circumstances which require the publication of a prospectus under the Prospectus Directive, if appropriate, a supplement to the Base Prospectus will be published.*

The Issuer may also from time to time issue Covered Bonds under the Programme which are subject to terms and conditions and/or final terms not contemplated by this Base Prospectus or under a different prospectus or without prospectus. The relevant (form of) terms and conditions will, in such circumstances, be set out in a schedule to the Programme Common Terms Agreement.

This Overview constitutes a general description of the Programme for purposes of Article 22.5(3) of Commission Regulation (EC) No 809/2004 implementing the Prospectus Directive, as amended or restated, from time to time.

Words and expressions defined in the “Terms and Conditions of the Covered Bonds” below or elsewhere in this Base Prospectus have the same meanings in this Overview.

PRINCIPAL PARTIES

Issuer	<p>KBC Bank NV (KBC Bank or the Issuer), a credit institution existing under the laws of the Kingdom of Belgium, with its registered office at Havenlaan 2, 1080 Brussels, registered with the Crossroads Bank for Enterprises under number RPM/RPR 0462.920.226, Commercial Court of Brussels.</p> <p>The National Bank of Belgium has admitted the Issuer to the list of credit institutions that are authorised to issue covered bonds on 6 November 2012.</p>
Competent Authority	<p><i>De Nationale Bank van België/La Banque Nationale de Belgique</i>, a public company with limited liability incorporated under the laws of the Kingdom of Belgium, with registered office at De Berlaymontlaan 14, 1000 Brussels, registered with the Crossroads Bank for Enterprises under number RPM/RPR 0203.201.340, Commercial Court of Brussels (NBB or the Competent Authority).</p>
Arrangers	<p>Deutsche Bank Aktiengesellschaft and KBC Bank (collectively, the Arrangers).</p>
Dealers	<p>KBC Bank, Deutsche Bank Aktiengesellschaft and any other dealers appointed from time to time in accordance with the Dealer Programme Agreement.</p>
Cover Pool Monitor	<p>A reputable firm of independent auditors and accountants, not being the auditors of the Issuer for the time being, appointed by the Issuer in accordance with Article 64/21, §1 of the Credit Institutions Supervision Law (as approved by the NBB in accordance with the Covered Bonds Legislation) as an independent cover pool monitor (<i>portefeuillesurveillant/surveillant de portefeuille</i>) (i) to issue periodic reports to the NBB on compliance by the Issuer with the legal and regulatory framework and (ii) to perform the Statutory Tests both as provided for in Covered Bonds Legislation and in</p>

accordance with the requirements of the NBB. The initial Cover Pool Monitor will be KPMG Bedrijfsrevisoren represented by Mr. Erik Clinck, Accredited Auditor (the **Cover Pool Monitor**).

For further information see “*Summary of the Covered Bonds Legislation*” and “*Description of Principal Documents*” below.

Cover Pool Administrator

In accordance with Article 64/13, § 1 of the Credit Institutions Supervision Law the NBB may appoint a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) in certain circumstances including (a) upon the adoption of a reorganisation measure against the Issuer if such measure, in the opinion of the NBB, may negatively affect the Covered Bondholders; (b) upon the initiation of bankruptcy proceedings against the Issuer; (c) upon the removal of the Issuer from the list of Belgian covered bonds issuers; or (d) in circumstances where the situation of the Issuer is such that it may seriously affect the interest of the Covered Bondholders (the **Cover Pool Administrator**).

For further information see “*Summary of the Covered Bonds Legislation*” and “*Description of Principal Documents*” below.

Representative

Stichting KBC Residential Mortgage Covered Bonds Representative a foundation (*stichting*) incorporated under Dutch law on 16 November 2012 has been appointed as representative (*vertegenwoordiger/représentant*) of the Covered Bondholders in accordance with Article 64/19 §2 of the Credit Institutions Supervision Law (the **Representative**). It has its registered office at Olympic Plaza, Frederik Roeskestraat 123, 1076 EE Amsterdam, the Netherlands and is registered in the trade register (*handelsregister*) of the chamber of commerce (*kamer van koophandel*) in the Netherlands under number 56487592. Its managing director is Amsterdamsch Trustee’s Kantoor B.V.

For further information see “*Summary of the Covered Bonds Legislation*” and “*Description of principal documents*” below.

Hedging Counterparties

The Issuer may, from time to time during the Programme, enter into Hedging Agreements (the **Hedging Agreements**) with various swap providers to hedge certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets and/or the Covered Bonds (each a **Hedging Counterparty**).

Liquidity Facility Provider

The Issuer may, from time to time during the Programme, enter into Liquidity Facility Agreements (the **Liquidity Facility Agreements**) with one or more liquidity facility providers (each a **Liquidity Facility Provider**) in order to improve the liquidity of the Special Estate.

Paying Agent and Domiciliary Agent KBC Bank (the **Domiciliary Agent**).

Listing Agent KBC Bank (the **Listing Agent**).

Statutory Auditors Ernst & Young Bedrijfsrevisoren BCVBA, represented by Pierre Vanderbeek and/or Christel Weymeersch, with offices at De Kleetlaan 2, B-1831 Diegem Brussels (**Statutory Auditors**).

Registrar (for Registered Covered Bonds) KBC Bank, unless otherwise specified in the applicable Final Terms.

Rating Agencies Means such internationally recognised rating agencies (together, the **Rating Agencies** and each a **Rating Agency**) as may from time to time be appointed to rate the Covered Bonds issued under the Programme. The Issuer may, from time to time, request for the withdrawal of a previously assigned rating of a Series of Covered Bonds by a Rating Agency and/or the appointment of a different Rating Agency to assign a rating to a Series of Covered Bonds in issue or about to be issued. The Issuer may also terminate the appointment of any Rating Agency to rate the Covered Bonds under the Programme at any time.

Moody's and Fitch have, for the time being, been appointed to provide ratings for those Series of Covered Bonds which are to be rated.

The parties listed above are appointed to act in respect of the Programme pursuant to the Programme Documents as further described under Section Programme Description of this Base Prospectus, the relevant Programme Documents provide that other parties may be appointed from time to time and contain certain provisions in relation to the replacement of the above-mentioned parties.

PROGRAMME DESCRIPTION

Description KBC Bank NV Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme (the **Programme**) is a programme for the continuous issue of Belgian *pandbrieven/lettres de gage* (the **Covered Bonds**) in accordance with the Covered Bonds Legislation.

The NBB has admitted the Programme to the list of authorised programmes for the issue of Belgian covered bonds on 6 November 2012. The NBB will regularly update such list upon notification by the Issuer with the Covered Bonds issued under the Programme and will indicate that the Covered Bonds constitute Belgian *pandbrieven/lettres de gage* under the Covered Bonds Legislation.

Programme Amount Euro 10,000,000,000 outstanding at any time as described herein. The Issuer may increase the amount of the Programme in accordance with the terms of the Dealer Programme Agreement.

Status of the Covered Bonds The Covered Bonds will be issued as Belgian *pandbrieven (Belgische pandbrieven/lettres de gage belges)* in accordance with the Covered Bonds Legislation and will constitute direct, unconditional and unsubordinated obligations of the Issuer. The Covered Bonds will rank *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series and at least *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application. In addition, the Covered Bonds will be covered in accordance with the Covered Bonds Legislation by the Special Estate and the Covered Bondholders and the Other Cover Pool Creditors will have an exclusive recourse to the Special Estate.

See also "*Summary of the Belgian Covered Bonds Legislation*" below.

Special Estate

Upon the first issue of Covered Bonds by the Issuer, the estate of the Issuer will be legally composed of a general estate and of the Special Estate. All Covered Bonds to be issued under the Programme will be covered by the same Special Estate.

Special Estate means the special estate (*bijzonder vermogen/patrimoine special*) of the Issuer constituted pursuant to Article 64/8 of the Credit Institutions Supervision Law in relation to the Programme.

See also section Summary of the Belgian Covered Bonds Legislation (4. Special Estate and protection in the context of an insolvency).

Main Asset Class

The main asset class of the Special Estate will consist of Residential Mortgage Loans, their Related Security interests and all monies derived therefrom from time to time in accordance with the Covered Bonds Legislation.

Related Security means all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate.

Residential Mortgage Loans means loans that are secured by a mortgage on residential real estate as defined in Article 2, 6° of the Covered Bonds Royal Decree and located in Belgium.

See also section Summary of the Belgian Covered Bonds Legislation (Section 5 Assets to be included in the special estate) and section Cover Assets of this Base Prospectus for further information on the composition of the Special Estate.

Register of Cover Assets

The Issuer will maintain a Register of Cover Assets in which both the issued Covered Bonds and the Cover Assets will be registered.

Cover Assets means Residential Mortgage Loans that are registered in the Register of Cover Assets and all other assets listed in Article 64/3, § 3, 2° of the Credit Institutions Supervision Law that are included in the Special Estate pursuant to Article 64/8 of the Credit Institutions Supervision Law.

Register of Cover Assets means the register of Cover Assets established by the Issuer for the Covered Bonds issued under the Programme in accordance with Article 64/20 of the Credit Institutions Supervision Law.

See also section Summary of the Belgian Covered Bonds Legislation (Section 4.2. The Register of Cover Assets).

Issuer Undertaking

The Issuer will undertake in favour of the Covered Bondholders and the Representative for so long as the Covered Bonds are outstanding, that it will ensure that

- (i) it will comply with the obligations applicable to it under the Covered Bonds Legislation;
- (ii) the value of the Residential Mortgage Loans registered as Cover Assets in the Register of Cover Assets calculated in

accordance with the Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105 per cent. of the Series Principal Amount Outstanding of the Covered Bonds of all Series; and

- (iii) the Special Estate will at all times include liquid bonds meeting the criteria set out in article 7 of the NBB Covered Bonds Regulation and which (a) are eligible as collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem (b) have a credit quality step 1 as defined in the Directive 2006/48/EC of 14 June 2006 (the **CRD Directive**), (c) are subject to a daily mark-to-market and have a market value which, after applying the ECB haircut in accordance with the Guidelines of the ECB of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem (as may be amended, supplemented, replaced and/or restated from time to time), is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months, (d) have a remaining maturity of more than three months, and (e) are not debt issued by the Issuer or residential mortgage backed securities (RMBS) of which the underlying assets have been originated by the Issuer or by a group related entity.

Moody's Committed OC Undertaking

The Programme Common Terms Agreement provides that for so long as Moody's provides a rating to a Series of Covered Bonds issued under the Programme and unless otherwise agreed with Moody's, the Issuer will ensure that the aggregate outstanding nominal amount of the Cover Assets (other than the Hedging Instruments registered as Cover Assets) will be at least equal to the sum of one plus Moody's Committed OC, multiplied by the Series Principal Amount Outstanding of the Covered Bonds of all Series (the **Moody's Committed OC Undertaking**).

where

Moody's Committed OC means the lower of

- (a) 28 per cent., and
- (b) the percentage figure that is necessary to ensure that the Covered Bonds achieve an Aaa rating by Moody's using Moody's expected loss methodology (regardless of the actual Moody's rating of the Covered Bonds at the time).

Moody's Committed OC Undertaking only applies for so long as Moody's provides a rating to a Series of Covered Bonds under the Programme.

The Programme Common Terms Agreement (including the Moody's Committed OC Undertaking) may be amended in writing between the Issuer and the Representative, without the consent or sanction of the Covered Bondholders.

Over-collateralisation and Cover Tests

At the time of the issuance and as long as any Covered Bonds remain outstanding, the Issuer must, in respect of the Special Estate, meet the following cover tests as provided for in the Covered Bonds Legislation.

The value of the Residential Mortgage Loans (and of the assets that form part of this category) registered as Cover Assets in the Special Estate must represent at least 85% of the Series Principal Amount Outstanding of the Covered Bonds of all Series (the **85% Asset Coverage Test**).

The value of the Cover Assets must provide an excess cover such that their value exceeds the Principal Amount Outstanding of the Covered Bonds. The value of the Cover Assets must represent at least 105% of the Series Principal Amount Outstanding of the Covered Bonds of all Series (the **Over-Collateralisation Test**).

The Cover Assets composing the Special Estate must, for the duration of the Covered Bonds, provide a sufficient cover (i) for the payment of principal and interest on the Covered Bonds, (ii) for the obligations towards the Cover Pool Creditors and (iii) for the management of the Special Estate. With respect to the Special Estate, the sum of interest, principal and all other revenues generated by the Cover Assets must be sufficient to cover the sum of all interest, principal and charges linked to the Covered Bonds (the **Cover Asset Coverage Test**).

The 85% Asset Coverage Test, the Over-Collateralisation Test and the Cover Asset Coverage Test are hereinafter jointly referred to as the **Cover Tests**.

See also section Summary of the Belgian Covered Bonds Legislation (6. Over-collateralisation and tests).

Liquidity Test

The Covered Bonds Legislation provides that, with respect to the Special Estate, the Cover Assets must over a period of six (6) months generate sufficient liquidity or include enough liquid assets in order to enable the Issuer to make all unconditional payments on the Covered Bonds (including principal, interest and other costs) falling due during the following six months (the **Liquidity Test**). As an Extended Final Maturity Date applies to all Series of Covered Bonds, payments of amounts due on the Final Maturity Date will not be considered as unconditional for the purpose of the Liquidity Test.

The Cover Tests and the Liquidity Test are hereinafter jointly referred to as the **Statutory Tests**.

See also section Summary of the Belgian Covered Bonds Legislation (8. Liquidity Test).

Management of the Special Estate

Until the appointment of a Cover Pool Administrator by the NBB, the Issuer will manage the Special Estate.

Upon designation, the Cover Pool Administrator will manage the Special Estate to the exclusion of the Issuer.

See also section Summary of the Belgian Covered Bonds Legislation (10.2. Cover Pool Administrator).

Changes to the Special Estate

Until the appointment of a Cover Pool Administrator by the NBB:

- (a) the Issuer may allocate additional assets to the Special Estate, among other things, for the purposes of issuing further Series of Covered Bonds and/or for the purpose of complying with the Statutory Tests and/or maintaining the initial rating(s) assigned to the Covered Bonds; and
- (b) the Issuer may remove or substitute existing Cover Assets from the Special Estate, provided that no breach of the Statutory Tests would occur as a result of such removal or substitution.

Final Maturity Date

The final maturity date for each Series (the **Final Maturity Date**) will be specified in the applicable Final Terms as agreed between the Issuer and the relevant Dealer(s). An Extended Final Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds.

Extended Final Maturity Date

The applicable Final Terms shall specify that the Issuer’s obligations under the relevant Covered Bonds to pay the Final Redemption Amount on the relevant Final Maturity Date will be deferred past the Final Maturity Date until the extended final maturity date (as specified in the applicable Final Terms) (such date the **Extended Final Maturity Date**).

Such deferral will occur automatically if the Issuer fails to pay any amount representing the amount due on the Final Maturity Date as set out in the Final Terms (the **Final Redemption Amount**) in respect of all Series of Covered Bonds on their Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date thereafter up to (and including) the relevant Extended Final Maturity Date. Interest will continue to accrue and be payable on any unpaid amounts on each Interest Payment Date up to the Extended Final Maturity Date in accordance with Condition 4 (Interest) and the Issuer will make payments on each relevant Interest Payment Date and Extended Final Maturity Date.

Events of Default

If any of the following events occurs and is continuing (each an **Event of Default**):

- (a) on the Extended Final Maturity Date in respect of any Series there is a failure to pay any amount of principal due on the Covered Bonds on such date and such default is not remedied within a period of 14 Business Days from the due date thereof; or
- (b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of 14 Business Days from the due date thereof,

then the Representative may and shall upon direction of the relevant majority of Covered Bondholders or if so directed by a Programme Resolution (subject to being indemnified and/or secured and/or prefunded to its satisfaction) serve a notice (a **Notice of Default**) on

the Issuer (copied to the Cover Pool Monitor, the NBB, the Rating Agencies and, if appointed, the Cover Pool Administrator).

Cross-acceleration

Following the service of a Notice of Default (i) no further Covered Bonds will be issued and (ii) the Covered Bond of each Series shall become immediately due and payable, together with any accrued interest.

Liquidation of the Special Estate

Upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator pursuant to Articles 64/16, 6° or 7° of the Credit Institutions Supervision Law:

- (a) may, in consultation with the Representative and subject to approval by the NBB, proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds where the Cover Assets are not, or risk not being, sufficient to satisfy the obligations under the Covered Bonds; and
- (b) will, in consultation with the Representative and the NBB, proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds when a majority decision has been taken to this effect at a meeting of Covered Bondholders at which at least two thirds of the Series Principal Amount Outstanding of the Covered Bonds of all Series is represented.

See also section Summary of the Belgian Covered Bonds Legislation (Section 4. Special Estate and protection in the context of an insolvency).

Payments on the Covered Bonds

Payments on the Covered Bonds will be direct and unconditional obligations of the Issuer.

Following delivery of a Notice of Default all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account (if any)) shall be applied on any Business Day in accordance with the Post Event of Default Priority of Payments provided in Condition 9.1 (*Post Event of Default Priority of Payments*).

Following a decision by the Cover Pool Administrator to liquidate the Special Estate and early redeem the Covered Bonds of all Series pursuant to Articles 64/16, 6° or 7° of the Credit Institutions Supervision Law and as long as no Notice of Default has been delivered all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account, if any) shall be applied on any Business Day in accordance with the Early Redemption Priority of Payments provided in Condition 9.2 (*Early Redemption Priority of Payments*).

Monitoring

The Cover Pool Monitor has been appointed (i) to issue periodic reports to the NBB on compliance by the Issuer with the legal and regulatory framework and (ii) to perform the Statutory Tests both as

provided for in Covered Bonds Legislation and in accordance with the requirements of the NBB. The NBB can also request that the Cover Pool Monitor performs other tasks and verifications.

See also section Summary of the Belgian Covered Bonds Legislation (10.2 Cover Pool Monitor).

Breach of the Statutory Tests

The Covered Bonds Legislation provides that, if the Issuer is (and remains) unable to meet the requirements of the Liquidity Test or any other specific requirements which applies to it as issuing credit institution of Belgian covered bonds, the NBB can impose a grace period of 14 days during which this situation must be resolved, if the situation is not resolved after expiry of this grace period, the NBB can remove the Issuer from the list of Belgian covered bonds Issuers and revoke the Issuer's license to issue Belgian covered bonds.

The NBB can also publish warnings/statements indicating that a credit institution has failed to comply with the NBB's requests to meet the requirements of the Covered Bonds Legislation within a specified grace period. In addition, as part of its general supervisory function under the Credit Institutions Supervision Law, the NBB can impose fines and administrative penalties.

A removal of the Issuer from the list of Belgian covered bonds Issuers will have no impact on the Covered Bonds already issued by the Issuer.

See also section Summary of the Belgian Covered Bonds Legislation (10.4 NBB).

Cross Default

None (other than cross-acceleration between Series of Covered Bonds).

Negative Pledge

None.

Belgian Covered Bonds Legislation

The Covered Bonds will be issued pursuant to the Belgian Covered Bonds Legislation.

For further information on the Belgian Covered Bonds Legislation, see "*Summary of the Belgian Covered Bonds Legislation*" below.

Governing Law

The Covered Bonds will be governed by and construed in accordance with Belgian law.

INFORMATION ON THE COVERED BONDS THAT MAY BE ISSUED UNDER THE PROGRAMME

Distribution

Covered Bonds may be distributed by way of private or public placement and in each case on a syndicated or non-syndicated basis.

Issuance in Series

Covered Bonds will be issued in Series, but on different terms from each other, subject to the terms set out in the applicable Final Terms in respect of such Series. Save in respect of the first issue of Covered Bonds, Covered Bonds issued under the Programme will either be fungible with an existing Series of Covered Bonds or have different terms from an existing Series of Covered Bonds (in which case they will constitute a new Series). The Issuer will issue

Covered Bonds without the prior consent of the Covered Bondholders pursuant to Condition 18 (Further Issues).

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and Series means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Final Terms

Final terms (the **Final Terms**) will be issued and published in accordance with the terms and conditions set out herein under “*Terms and Conditions of the Covered Bonds*” (the **Conditions**) prior to the issue of each Series or Tranche detailing certain relevant terms thereof which, for the purposes of that Series only, complete the Conditions and the Base Prospectus and must be read in conjunction with the Conditions and the Base Prospectus. The terms and conditions applicable to any particular Series are the Conditions as completed by the applicable Final Terms.

Exempt Covered Bonds

The applicable Final Terms in relation to any Tranche of Covered Bonds may, in the case of any Covered Bonds which are neither to be admitted to trading on a regulated market within the European Economic Area nor offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive (**Exempt Covered Bonds**), specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the terms and conditions included in this Base Prospectus, replace or modify the terms and conditions included in this Base Prospectus for the purpose of such Exempt Covered Bonds.

Form of Covered Bonds

The Covered Bonds can be issued (i) in dematerialised form (**Dematerialised Covered Bonds**) in accordance with Article 468 *et seq.* of the Belgian Company Code via a book-entry system maintained in the records of the NBB as operator of the Securities Settlement System or (ii) in registered form (**Registered Covered Bonds**) in accordance with Article 462 *et seq.* of the Belgian Company Code. No physical documents of title will be issued in respect of Dematerialised Covered Bonds that will be delivered in the form of an inscription on a securities account. See “*Form of the Covered Bonds*”.

Issue Dates

The date of issue of a Series or Tranche as specified in the applicable Final Terms (each, the **Issue Date** in relation to such Series or Tranche).

Specified currency

Euro.

Denominations

The Covered Bonds will be in such denominations as may be specified in the applicable Final Terms with a minimum specified denomination of Euro 100,000.

Fixed Rate Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds will bear interest at a fixed rate (**Fixed Rate Covered Bonds**),

which will be payable on each Interest Payment Date and on the applicable redemption date and will be calculated on the basis of such Day Count Fraction as may be agreed between the Issuer and the relevant Dealer(s) (as set out in the applicable Final Terms).

Floating Rate Covered Bonds

The applicable Final Terms may provide that certain Covered Bonds bear interest at a floating rate (**Floating Rate Covered Bonds**). Floating Rate Covered Bonds will bear interest at a rate determined:

- (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the ISDA Definitions; or
- (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service,

the margin (if any) relating to such floating rate (the **Margin**) will be agreed between the Issuer and the relevant Dealer(s) for each issue of Floating Rate Covered Bonds, as set out in the applicable Final Terms.

Other provisions in relation to Floating Rate Covered Bonds

Floating Rate Covered Bonds may also have a Maximum Rate of Interest, a Minimum Rate of Interest or both (as indicated in the applicable Final Terms). Interest on Floating Rate Covered Bonds in respect of each Interest Period, as agreed prior to issue by the Issuer and the relevant Dealer(s), will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, in each case as may be agreed between the Issuer and the relevant Dealer(s).

Zero Coupon Covered Bonds

The applicable Final Terms may provide that Covered Bonds, bearing no interest (**Zero Coupon Covered Bonds**), may be offered and sold at a discount to their nominal amount.

Issue Price

Covered Bonds of each Series may be issued at par or at a premium or discount to par on a fully-paid basis (in each case, the **Issue Price** for such Series or Tranche) as specified in the applicable Final Terms in respect of such Series.

Interest Payment Dates

In relation to any Series of Covered Bonds, the Interest Payment Dates will be specified in the applicable Final Terms (as the case may be).

Early Redemption

The Covered Bonds can be redeemed prior to their stated maturity for taxation reasons in the manner set out in Condition 6.2 (*Redemption for taxation reasons*) and in the event of an illegality in the manner set out in Condition 6.4 (*Illegality*).

GENERAL INFORMATION

Proceeds of the issue of Covered Bonds

The gross proceeds from each issue of Covered Bonds will be used by the Issuer to fund its general corporate purposes. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

Taxation

All payments of principal, interest and other proceeds (if any) on the Covered Bonds will be made free and clear of any withholding or

deduction for, or on account of, any taxes of Belgium, unless the Issuer or any intermediary that intervenes in the collection of interest and other proceeds on the Covered Bonds is required by law to make such a withholding or deduction. In the event that such withholding, or deduction is required by law, the Issuer will, except in certain limited circumstances provided in Condition 7, be required to pay additional amounts to cover the amounts so deducted.

Ratings

Each Series issued under the Programme may be assigned a rating by the Rating Agencies. Details of the ratings assigned to a particular Series of Covered Bonds will be specified in the applicable Final Terms, whether or not each credit rating applied in relation to the Covered Bonds will be issued by a credit rating agency established in the European Union and registered under the CRA Regulation will be disclosed in the applicable Final Terms.

Moody's Investor Services Limited is established in the European Union and is registered for the purposes of the CRA Regulation.

Fitch Ratings Ltd. and Fitch France S.A.S. are established in the European Union and are registered for the purposes of the CRA Regulation.

Each of Moody's and Fitch is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with the CRA Regulation.

Listing and admission to trading

Application has been made to the Belgian Financial Services and Market Authority (*Autoriteit voor Financiële Diensten en Markten / Autorité des services et marchés financiers*) (**FSMA**) to approve this document as a base prospectus. Application has also been made to Euronext Brussels for the Covered Bonds issued under the Programme after the date hereof to be admitted to listing on the official list and trading on the regulated market of Euronext Brussels.

Covered Bonds may be unlisted or may be listed or admitted to trading, as the case may be, on a regulated market for the purposes of the Markets in Financial Instruments Directive, as may be agreed between the Issuer, the Representative of the Belgian Covered Bondholders and the relevant Dealer(s) in relation to each issue. The Final Terms relating to each Tranche of the Covered Bonds will state whether or not the Covered Bonds are to be listed and/or admitted to trading and, if so, on which regulated markets.

Delivery of Covered Bonds

Dematerialised Covered Bonds will be credited to the accounts held in the clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**), by Euroclear Bank SA/NV (Euroclear), Clearstream Banking S.A. (**Clearstream, Luxembourg**) or other Securities System participants or their participants. Registered Covered Bonds will be registered in a register maintained by the Issuer or by the Registrar in accordance with Article 462 *et seq.* of the Belgian Company Code.

Securities Settlement Systems

The Dematerialised Covered Bonds will be created, cleared and settled in the Securities Settlement System. Euroclear and

Clearstream, Luxembourg maintain accounts in the Securities Settlement System. The clearing of the Covered Bonds through the Securities Settlement System is subject to prior approval of the NBB.

Selling Restrictions

There are restrictions on the offer, sale and transfer of the Covered Bonds in the United States, the EEA, the United Kingdom, Spain, Japan, France, the Netherlands, the Republic of Italy, the Czech Republic, Poland, Hong Kong, the Republic of Singapore, Korea, Hungary and the Slovak Republic and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Covered Bonds. See “*Subscription and Sale*” below.

The Issuer is Category 2 for the purposes of Regulation S under the Securities Act.

PROGRAMME DOCUMENTS

Representative Appointment Agreement

Under the terms of the Representative Appointment Agreement dated on or about 21 November 2012 between the Issuer and the representative, the representative will be appointed to act as representative (*vertegenwoordiger/représentant*) of the Belgian Covered Bondholders in accordance with the Covered Bonds Legislation.

Programme Common Terms Agreement

Pursuant to a programme common terms agreement entered into between the Issuer, the Representative and the Cover Pool Monitor (such programme common terms agreement as modified and/or supplemented and/or restated from time to time, the **Programme Common Terms Agreement**) dated on or about 21 November 2012, all Covered Bonds issued under the Programme shall be subject to and have the benefit of certain programme common terms regardless of whether the Covered Bonds are issued under the Base Prospectus or not.

Agency Agreement

Under the terms of an agency agreement dated on or about 21 November between the Issuer, KBC Bank as Domiciliary Agent, Paying Agent, Listing Agent and Registrar and the Representative (the **Agency Agreement**), KBC Bank will respectively act as domiciliary agent, paying agent, listing agent and registrar in relation to the Covered Bonds.

Clearing Services Agreement

The Issuer, the Domiciliary Agent and the NBB as operator of the Securities Settlement System will enter into a clearing services agreement in relation to the clearing of the Covered Bonds (the **Clearing Services Agreement**).

Hedging Agreements

The Issuer may, from time to time during the Programme, enter into interest rate swap agreements, FX swap agreements and covered bonds swap agreements (together the **Hedging Agreements**) with one or more Hedging Counterparties for the purpose of, inter alia, protecting itself against certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets (as defined below) and/or the Covered Bonds.

Any Hedging Agreement(s) will be included as part of the Special Estate at the Issuer’s discretion.

Liquidity Facility Agreements

The Issuer may, from time to time during the Programme, enter into Liquidity Facility Agreements (the **Liquidity Facility Agreements**) with one or more Liquidity Facility Providers in order to improve the liquidity of the Special Estate.

Any Liquidity Facility Agreement(s) will be included as part of the Special Estate at the Issuer's discretion.

Programme Documents

The Agency Agreement, the Representative Appointment Agreement, the Programme Common Terms Agreement, the Clearing Services Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Covered Bonds and/or the Special Estate and designated as a Programme Document by the Issuer and the Representative.

Investor Report

Not later than on the day which falls on the 15th (fifteenth) Business Day of each calendar quarter of each year (each an **Investor Report Date**), the Issuer will publish an investor report (the **Investor Report**), which will contain information regarding the Covered Bonds and the Cover Assets, including statistics relating to the financial performance of the Cover Assets. Such report will be available to the prospective investors in the Covered Bonds and to the Covered Bondholders at the offices of the Domiciliary Agent, on Bloomberg and on the website of KBC Group (www.kbc.com).

SUMMARY OF THE BELGIAN COVERED BONDS LEGISLATION

The Issuer is licensed under the Credit Institutions Supervision Law to issue Belgian covered bonds. The following is a brief summary of certain features of the Covered Bonds Legislation governing the issuance of Belgian covered bonds as at the date of this Base Prospectus, which legislation may be supplemented, amended, modified or varied whether by legislative enactment or by way of judicial decisions and administrative pronouncements including, possibly, with retroactive effect. This summary does not purport to be, and is not, a complete description of all aspects of the Belgian legislative and regulatory framework pertaining to Belgian covered bonds and prospective Covered Bondholders should also read the detailed information set out elsewhere in this Base Prospectus. The original language of the Covered Bonds Legislation is Dutch and French. The following summary is provided in English only for the sake of convenience. In the event of any doubt, the original Dutch or French language version of the Covered Bonds Legislation should be consulted.

1. INTRODUCTION

The transactions described in this Base Prospectus are the subject of specific legislation, the Covered Bonds Legislation. As mentioned elsewhere in this Base Prospectus, the Covered Bonds Legislation includes: the Covered Bonds Law, the Mobilisation Law, the Covered Bonds Royal Decree, the Cover Pool Administrator Royal Decree, the NBB Covered Bonds Regulation, the NBB Cover Pool Monitor Regulation and any other law, royal decree, regulation or order that may be passed or taken in relation to Belgian covered bonds, as amended from time to time.

The Covered Bonds Legislation has been enacted, with a view, *inter alia*, to introducing a legal framework for the issue of Belgian covered bonds complying with the standards of Article 52, § 4 of Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (recast) by Belgian credit institutions.

The Covered Bonds Legislation contemplates a full on balance structure with a right of dual recourse for Covered Bondholders (an exclusive claim against the Special Estate (together with the Cover Pool Creditors) and an unsecured claim against the General Estate of the Issuer).

The provisions of the Covered Bonds Legislation that are relevant to the Programme may be summarised as follows:

2. BELGIAN PANDBRIEVEN (BELGISCHE PANDBRIEVEN/LETTRES DE GAGE BELGES)

Pursuant to Article 3, §1, 20° of the Credit Institutions Supervision Law, Belgian covered bonds are debt instruments which:

- are issued by a credit institution governed by Belgian law which is authorised to issue Belgian covered bonds;
- are included in the list of Belgian covered bonds, or are subject to a Belgian covered bond programme approved by the NBB; and
- are covered by a special estate on the balance sheet of the issuing credit institution.

Pursuant to Article 64/1 § 2 and 64/7 § 1 of the Credit Institutions Supervision Law, Belgian covered bonds which comply with the requirements of Directive 2006/48/EC of 14 June 2006 (the **CRD Directive**) may be referred to as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*). Pursuant to Article 13 of the Covered Bonds Royal Decree, Belgian covered bonds which comply with the requirements set out in the Covered Bonds Royal Decree will be deemed to comply with the CRD Directive and may therefore be referred to as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*). The Covered Bonds issued under the Programme will comply with the requirements set

out in the Covered Bonds Royal Decree and will therefore be deemed to comply with the CRD Directive.

3. DUAL AUTHORISATION BY THE NBB

3.1 Introduction

A Belgian credit institution requires specific authorisation from the NBB to issue Belgian covered bonds.

The prior authorisation of the NBB comprises:

- a general authorisation in relation to its organisational capacity to issue Belgian covered bonds and to provide the follow up (the **General Authorisation**); and
- a special authorisation as to whether a particular issue or issue programme complies with the legal requirements (the **Specific Authorisation**).

On its website, the NBB publishes:

- a list of credit institutions that are authorised to issue Belgian covered bonds (<http://www.nbb.be/pub/cp/domains/ki/li/covered-bonds-institutions.htm?l=nl>); and
- a list that specifies, per credit institution, the programmes or issuances that have been authorised. This list is divided into a list of Belgian covered bonds and a list of Belgian pandbrieven (<http://www.nbb.be/pub/cp/domains/ki/li/covered-bonds-emission.htm?l=nl>).

The Issuer is on the NBB's list of credit institutions that are authorised to issue Belgian covered bonds. The Programme is on the NBB's list of Belgian covered bonds that are compliant with the CRD Directive.

3.2 General Authorisation

To obtain a General Authorisation, the credit institution must, among other things, provide information on its financial position, long-term strategy, tasks and responsibilities in relation to the issue of Belgian covered bonds, risk management policy, internal audit and IT systems. The financial position must demonstrate that the interests of its creditors other than the holders of Belgian covered bonds will be protected. The credit institution's statutory auditor must report on the credit institution's organisational capacity to issue Belgian covered bonds.

The NBB will only grant the General Authorisation to the extent that, on the basis of the above information, it is satisfied:

- that the administrative and accounting organisation of the Issuer allows it to operate in accordance with the Covered Bonds Legislation, in particular as regards its capacity to segregate the Cover Assets from its General Estate; and
- that the financial position of the Issuer, specifically with respect to its solvency, is sufficient to safeguard the interests of its creditors, other than the Covered Bondholders and Other Cover Pool Creditors.

The Issuer obtained the General Authorisation from the NBB in relation to its organisational capacity to issue Belgian covered bonds on 6 November 2012.

3.3 Specific Authorisation

To obtain the Specific Authorisation, the credit institution must, among others things, provide information on the impact of the issue on the liquidity position of the issuing credit institution, the quality of the cover assets and the extent to which the maturity dates of the Belgian covered bonds

coincide with those of the cover assets. The credit institution will also have to demonstrate that it continues to comply with the requirements of the General Authorisation.

The NBB will only grant the Specific Authorisation to the extent that, on the basis of the above information, it is satisfied that the following conditions have been met:

- the Issuer has obtained a General Authorisation; and
- the Cover Assets meet the requirements set out in the Covered Bonds Legislation.

The Issuer obtained the Specific Authorisation from the NBB in relation to the Programme on 6 November 2012.

4. SPECIAL ESTATE AND PROTECTION IN THE CONTEXT OF AN INSOLVENCY

4.1 Composition of the Special Estate

The Covered Bonds Legislation contemplates a full on balance sheet structure.

The estate of an issuing credit institution that has issued Belgian covered bonds is legally composed of a general estate and of one or more ringfenced special estates.

The issuing credit institution must maintain a cover register for all Belgian covered bonds issued in which all Belgian covered bonds and the cover assets are registered (the **Register of Cover Assets**).

The special estate by operation of law includes:

- all assets registered in the Register of Cover Assets;
- the assets (cash or financial instruments) received as collateral in the context of hedging agreements which are part of the special estate;
- all security interests and sureties, guarantees or privileges, in whatever form, that have been granted in relation to cover assets, as well as rights under insurance policies and other contracts in relation to the cover assets or the management of the special estate;
- all sums that the issuing credit institution holds as a result of the recovery (reimbursement, payment) of assets or of the rights mentioned above for the account of the special estate or otherwise held for the special estate; and
- the mandatory reserves with the NBB, to the extent that these are linked to the special estate.

4.2 The Register of Cover Assets

The issuing credit institution must maintain a Register of Cover Assets. The issuing credit institution may have more than one Register of Cover Assets. The assets included in the Register of Cover Assets are included on, and are a part of, the issuing credit institution's balance sheet. Each item in the Register of Cover Assets must be clearly identified and the Register of Cover Assets must be updated on a regular basis to include any changes in the relevant information.

As from their registration in the Register of Cover Assets, the assets listed in Article 64/3, § 3, 2° of the Credit Institutions Supervision Law (see section 5 below), including the relevant hedging instruments, that are part of the relevant Special Estate, constitute the cover assets. Such registration and allocation to the cover assets is valid and enforceable against third parties.

The amounts that are paid by way of repayment, recovery or payment of interest on the cover assets, may be applied as cover assets that form part of their respective category, until the point at which such amounts are used for other purposes.

Upon their removal from the Register of Cover Assets, cover assets will no longer be part of the special estate.

The Register of Cover Assets must at least contain the following information:

- the characteristics per series of issued Belgian covered bonds, including their nominal value, maturity date and interest rate(s); and
- the characteristics of assets that constitute the Cover Assets, including the category, the type of contract, the nominal value, the currency, the issue date or origination date and the maturity date of the assets, the date of registration in the Register of Cover Assets, the identity of the counterparties, information regarding redemption, interest rates, guarantees and the value of the assets.

If any of the above characteristics of an asset changes, this must be reflected in the Register of Cover Assets as soon as possible.

The assets, hedging instruments and the outstanding debt instruments that are part of the special estate must be registered in accordance with the following principles:

- the cover assets, which are registered in the Register of Cover Assets, must at all times be identifiable in the accounts and systems of the issuing credit institution;
- each transaction regarding cover assets must be immediately registered in the Register of Cover Assets and at the latest on the same day by close of business;
- each registration in and/or amendment to the Register of Cover Assets must be traceable;
- the issuing credit institution must be able to copy the content of the Register of Cover Assets at all times; and
- at the end of each month, the content of the Register of Cover Assets must be copied to a durable medium and kept for a period of five (5) years after the maturity date of the Belgian covered bonds. The standard procedures of the issuing credit institution for back-up and archiving can be used to this end, provided that the relevant storage method is acceptable to the statutory auditor, the cover pool monitor and the NBB.

Protective measures must be taken to prevent unauthorised persons from making modifications to the Register of Cover Assets, or to prevent damages to or destruction of the Register of Cover Assets. To this end, the issuing credit institution must keep an updated (back-up) copy of the Register of Cover Assets on another location than where the original copy is kept.

4.3 Allocation of the Special Estate

Each special estate is exclusively allocated to satisfy the obligations towards the Belgian covered bondholders and creditors that are or can be determined based on the issue conditions. The distribution or priority rules between the obligations towards the holders of Belgian covered bonds and the other creditors of the special estate must be determined in the issue conditions and in the agreements that are entered into in the context of the issue of Belgian covered bonds or the relevant issue programme. The Conditions (see Condition 9 (*Priorities of Payments*)) contain specific provisions regarding the distribution of payments between the Covered Bondholders and the Other Cover Pool Creditors with respect to funds derived from the Special Estate following an acceleration of the Covered Bonds or following a decision of the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Article 64/16, 6° or 7° of the Credit Institutions Supervision Law.

Creditors of the issuing credit institution (other than Belgian covered bondholders and creditors that are or can be determined based on the issue conditions) may not exercise any rights against or attach the special estate.

The Belgian covered bondholders and the creditors that are or can be determined based on the issue conditions also maintain a recourse against the general estate of the issuing credit institution. The Belgian covered bondholders and creditors that are or can be determined based on the issue conditions

consequently have a dual right of recourse against (a) the general estate and (b) the special estate of the issuing credit institution.

The holders of Covered Bonds issued by the Issuer under the Programme and the Other Cover Pool Creditors will consequently have an exclusive recourse against the Special Estate while maintaining a recourse against the General Estate of the Issuer. As indicated above, the Conditions (see Condition 9 (*Priority of Payments*)) contain specific provisions regarding the distribution of payments between the Cover Pool Creditors with respect to funds derived from the Special Estate following an acceleration of the Covered Bonds or following a decision of the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Article 64/16, 6° or 7° of the Credit Institutions Supervision Law.

4.4 Protection in the context of insolvency – no acceleration

The Covered Bonds Legislation also contains provisions relating to the protection of holders of Belgian covered bonds and of creditors that are or can be determined based on the issue conditions upon the insolvency of the issuing credit institution.

If bankruptcy proceedings are initiated against the issuing credit institution, the proceedings are limited to the general estate of the issuing credit institution; the special estate and the debts and obligations it covers do not form part of the bankruptcy estate. The proceedings do not cause the obligations and debts of the special estate to become due and payable. Accordingly, the Belgian covered bonds (can) remain outstanding until their stated maturity, notwithstanding a bankruptcy of the issuing credit institution.

The special estate will be run separately from the bankruptcy procedure applicable to the general estate of the issuing credit institution (ie on a bankruptcy remote basis).

Cover assets that are part of the special estate will only return to the general estate once all Belgian covered bonds have been repaid in full. The insolvency administrator (*curator/curateur*) will have no rights on the special estate. However, on the initiation of bankruptcy proceedings against the issuing credit institution, the insolvency administrator is entitled, after consultation with the NBB, to require that the cover assets, that are with certainty no longer necessary as cover assets, are retransferred to the general estate.

The insolvency administrator has a legal obligation to co-operate with the NBB and the cover pool administrator in order to enable them to manage the special estate in accordance with the Covered Bonds Legislation.

A special (legal) mechanism has been created to protect cash held by the issuing credit institution on account of the special estate. Pursuant to this (legal) mechanism, the ownership rights of the special estate as regards cash that cannot be identified in the general estate, will be transferred to unencumbered assets of the general estate that will be selected by taking into account criteria specified in the issue conditions. With respect to the Programme, these criteria are specified in Condition 12 (*Covered Bonds Provisions*).

In addition, upon a bankruptcy of the issuing credit institution, all sums and payments relating to the assets constituting the special estate that are collected by or for the account of the special estate are automatically excluded from the bankrupt estate of the issuing credit institution and exclusively allocated to the special estate.

4.5 Transfer and liquidation of the special estate

As indicated above, bankruptcy proceedings against the issuing credit institution do not cause the obligations and debts covered by the special estate to become due and payable. Upon the initiation of bankruptcy proceedings against the issuing credit institution, the cover pool administrator may, in the interest of the holders of Belgian covered bonds, in consultation with the representative of the holders of Belgian covered bonds and subject to approval by the NBB, transfer the special estate (assets and

liabilities) and its management to an institution entrusted with performing obligations to the holders of Belgian covered bonds in accordance with the initial issue conditions.

Upon the initiation of bankruptcy proceedings against the issuing credit institution, the cover pool administrator:

- (i) may, in consultation with the representative of the holders of Belgian covered bonds and subject to approval by the NBB, proceed with the liquidation of the special estate and with the early redemption of the Belgian covered bonds where the cover assets are not, or risk not being, sufficient to satisfy the obligations under the Belgian covered bonds; and
- (ii) will, in consultation with the representative of the holders of Belgian covered bonds and the NBB, proceed with the liquidation of the special estate and with the early redemption of the Belgian covered bonds when a majority decision has been taken to this effect at a bondholders meeting at which at least two thirds of the principal amount of Belgian covered bonds is represented.

If the Cover Tests and the Liquidity Test are no longer met, the cover pool administrator must consult the representative of the covered bondholders for purposes of considering the liquidation of the special estate and the early repayment of the Belgian covered bonds, as contemplated under (i) above.

Reference is also made to Condition 8 (*Events of Default and Enforcement*) in relation to the events that trigger an acceleration of the Covered Bonds.

The rights of Belgian covered bondholders and of the creditors that are or can be determined based on the issue conditions against the special estate will also be maintained and will follow the special estate on a disposal of assets of the issuing credit institution in the context of redress measures taken by the Belgian authorities against the issuing credit institution.

5. Assets to be Included in the Special Estate

The special estate may be composed of assets falling within any of the following five categories: Residential Mortgage Loans (including Residential Mortgage Backed Securities (**RMBS**)) (**category 1**), Commercial Mortgage Loans (including Commercial Mortgage Backed Securities (**CMBS**)) (**category 2**), Public Exposures (including Public Asset Backed Securities (**ABS**)) (**category 3**), exposures to credit institutions (**category 4**) and hedging instruments (**category 5**).

(a) Mortgage Loans

The special estate may include residential mortgage loans or commercial mortgage loans:

- (i) **Residential mortgage loans (category 1)**: mortgage receivables secured by a mortgage on residential real estate located in the European Economic Area (**EEA**) (**Residential Mortgage Loans**). Mortgage receivables relating to residential real estate under construction or in development can only be included in the special estate if they do not represent more than 15% of all the residential mortgage loans included in the special estate.
- (ii) **Commercial mortgage loans (category 2)**: mortgage receivables secured by a mortgage on commercial real estate located in the EEA (**Commercial Mortgage Loans**). Mortgage receivables relating to commercial real estate under construction or in development may not be included in the special estate.

In order to qualify for residential and commercial mortgage loans, the credit institution must be the beneficiary of a first-ranking mortgage.

Residential Real Estate is real property that is destined for housing or for renting (*huur/location*) as housing by the owner.

Commercial Real Estate is real property that is primarily used for industrial or commercial purposes or for other professional activities, such as offices or other premises intended for the exercise of a commercial or services activity.

- (b) **Exposures to public sector entities (category 3):** receivables on or guaranteed or insured by (i) central, regional or local authorities of member states of the Organisation for Economic Co-operation and Development (**OECD**), (ii) central banks of these member states, (iii) public sector entities of these member states or (iv) multilateral development banks or international organisations that qualify for a 0% risk weighting as set out in annex VI, 20 of the CRD Directive (**Public Exposures**).
- (c) RMBS, CMBS and ABS issued by securitisation vehicles that securitise exposures on assets primarily composed of the assets sub (a) and/or (b) above and that meet the following conditions:
 - (i) the securitisation vehicle is governed by the laws of a member state of the EEA;
 - (ii) the securitisation positions qualify for credit quality step 1 as set out in annex IX, part 4, 6 of the CRD Directive and are part of the most senior tranche of securitisation positions;
 - (iii) at least 90% of the underlying assets are composed of only one of the categories of residential mortgage loans, commercial mortgage loans or public sector exposures;
 - (iv) the underlying assets have been originated by a group-related entity of the issuing credit institution; and
 - (v) the most subordinated tranche is fully retained by the issuing credit institution or a group-related entity.

Securities issued by securitisation vehicles are only recognised as cover assets within the limits imposed by the CRD Directive (which permits Belgian covered bonds to benefit from a favourable weighting in the context of the “own funds” regulation applicable to credit institutions).

- (d) **Exposures to credit institutions (category 4):** claims against credit institutions that have the status of credit institution under the law of a member state of the OECD and cash held on account with these credit institutions, as well as sums held by the issuing credit institution for the benefit of the special estate.
- (e) **Hedging instruments (category 5):** positions resulting from one or more hedging instruments linked to one or more cover assets or Belgian covered bonds concerned, as well as sums paid under these positions. The counterparty of these instruments must have the status of a credit institution under an OECD member state.

The hedging instruments may only cover interest rate risk, currency exchange risk or other risks linked to the cover assets or the Belgian covered bonds.

The hedging instruments may only be included in the special estate if recovery measures or bankruptcy proceedings opened against the issuing credit institution do not automatically result in the early termination (close-out) of these instruments and if the relevant hedge counterparty cannot invoke an early termination (close-out) in such circumstances. The issuing credit institution may not include hedging instruments in one of the novation or netting agreements to which it is a party.

The credit institution must be able to demonstrate that the default risk of the counterparty is limited. The NBB Covered Bonds Regulation specifies that the limited default risk of the counterparty will be established if the counterparty qualifies for:

- (i) credit quality step 1 according to Annex VI of the CRD Directive; or

- (ii) credit quality step 2 according to Annex VI of the CRD Directive and that the duration of the hedging contract does not exceed 12 months as from the time it was registered in the Register of Cover Assets.

If the hedge counterparty is a group-related entity of the issuing credit institution, it must have the status of credit institution in an EEA Member State and must benefit from credit quality step 1 (as defined in annex VI, points 29 to 32 of the CRD Directive). In addition, the net risk positions arising from these hedging instruments towards these counterparties have to be covered by financial instruments or values as contemplated by Annex VIII, part 1, point 7 of the CRD Directive.

Furthermore, the issuing credit institution must establish risk management policies in relation to interest rate and currency exchange risks. The issuing credit institution must ensure that the liquidity generated by such hedging instruments is sufficient to meet the applicable tests in the case of sudden and unexpected movements and/or, as the case may be, dispose of other assets that can be sold or mobilised quickly in order to provide relevant coverage.

Amounts paid as reimbursement, collection or payment of interest on cover assets included in the special estate may be applied as cover assets that are a part of their respective category.

6. OVER-COLLATERALISATION AND TESTS

At the time of the issuance and as long as any Belgian covered bonds remain outstanding, the issuing credit institution must, in respect of each special estate, meet the following cover tests.

6.1 85% Asset Coverage Test

The value of the assets out of one of the first three categories (Residential Mortgage Loans (including RMBS), Commercial Mortgage Loans (including CMBS) or Public Exposures (including ABS)) must represent at least 85% of the nominal amount of the Belgian covered bonds outstanding (the **85% Asset Coverage Test**).

For purposes of this Programme, the main asset class of the Special Estate will consist of Residential Mortgage Loans, their Related Security interests and all monies derived therefrom from time to time in accordance with the Covered Bonds Legislation.

6.2 Over-Collateralisation Test

The value of the cover assets must provide an excess cover such that their value exceeds the principal amount outstanding of the Belgian covered bonds. Per special estate, the value of the cover assets must represent at least 105% of the principal amount of the Belgian covered bonds issued (the **Over-Collateralisation Test**).

In order to meet the continuous requirements of the Over-Collateralisation Test, the issuing credit institution has the legal obligation to maintain an active collateral management policy. Accordingly, the composition of the cover assets included in the special estate is dynamic. As long as Belgian covered bonds are outstanding, the issuing credit institution may be required to add, remove and/or replace cover assets in order to meet the requirements of the Over-Collateralisation Test.

6.3 Cover Asset Coverage Test

The cover assets composing the special estate must, for the duration of the Belgian covered bonds, provide a sufficient cover (i) for the payment of principal and interest on the Belgian covered bonds, (ii) for the obligations towards the creditors that are or can be determined based on the issue conditions and (iii) for the management of the special estate. Per special estate, the sum of interest, principal and all other revenues generated by the cover assets must be sufficient to cover the sum of

all interest, principal and charges linked to the Belgian covered bonds (the **Cover Asset Coverage Test**).

The 85% Asset Coverage Test, the Over-Collateralisation Test and the Cover Asset Coverage Test are hereinafter jointly referred to as the **Cover Tests**.

7. COVER TESTS – VALUATION METHODOLOGY

The value of the cover assets of each category is determined in the following manner for the purpose of the 85% Asset Coverage Test and the Over-Collateralisation Test:

- (a) **Residential Mortgage Loans:** the lesser of (i) the outstanding loan amount, (ii) 80% of the market value of the residential real estate and (iii) the value of the mortgage.

If the residential real estate over which a mortgage has been created is located in Belgium, the value of the mortgage in respect of a residential mortgage loan will be equal to the amount of the mortgage registration in first rank, plus any amounts of mortgages in subsequent ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres crédateurs*).

If the mortgage is supplemented with a mortgage mandate, the value of the mortgage will be equal to the lesser of (i) the sum of the amount of the mortgage registration in first rank, plus any amounts of mortgages in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres crédateurs*) and the amount for which a mortgage mandate has been granted and (ii) the amount of the mortgage registration in first rank, plus the amount of any mortgage in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres crédateurs*), divided by 0.6.

If the residential real estate over which the mortgage has been created is located outside Belgium, the value of the mortgage in respect of such residential mortgage loan will be equal to the amount of the mortgage registration in first rank, plus the amount of any mortgages in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres crédateurs*). Mortgage mandates are not taken into consideration.

Residential real estate may only be taken into consideration for purposes of the valuation calculations of the cover assets if the requirements set out in Annex VIII, part 2, point 8 and the valuation rules set out in Annex VIII, part 3, points 62 to 65 of the CRD Directive, as implemented in Belgium, have been complied with. This does not prejudice the possibility to take into account the value of mortgage mandates, as set out above. If deemed necessary, the NBB can impose further requirements with respect to the valuation of residential real estate.

The valuation of residential real estate is subject to periodic review. The valuation rules in relation to residential real estate are further specified in the NBB Covered Bonds Regulation.

- (b) **Commercial Mortgage Loans:** the lesser of (i) the outstanding loan amount, (ii) 60% of the sales value of the commercial real estate and (iii) the value of the mortgage.

The value of the mortgage in respect of a commercial mortgage loan equals the amount of the mortgage registration in first rank, accrued (if applicable) with the amount of the mortgages in sequentially lower ranks provided that there are no other creditors with prior-ranking mortgage rights (*zonder dat andere schuldeisers zich in een tussenpositie bevinden/sans interposition d'autres crédateurs*). Mortgage mandates are not taken into consideration.

Commercial real estate may only be taken into consideration for purposes of the valuation calculations if the eligibility requirements that apply to Residential Mortgage Loans have been met.

The valuation of commercial real estate is subject to periodic review.

- (c) **Public Exposures:** To the extent that the counterparty is a member of the European Union, the value is equal to the book value in the books of the issuing credit institution (or limited to the amount guaranteed or insured by the relevant entities). If the counterparties of the receivables are not members of the European Union, the value of the receivables will be zero unless:
- the counterparties benefit from a credit quality step 1 as defined in Annex VI of the CRD Directive; or
 - the counterparties benefit from a credit quality step 2 as defined in Annex VI of the CRD Directive and these receivables do not exceed 20% of the amount of Belgian covered bonds.
- (d) **RMBS, CMBS and ABS issued by securitisation vehicles:** the value of the receivables corresponds to the lesser of (i) the amount at which the assets are registered in the accounting statements and (ii) the amount of the assets that are underlying to the securitisation, applying the valuation rules set forth above per analogy.
- (e) **Hedging instruments:** no value is given to that category for the purpose of the 85% Asset Coverage Test and the Over-Collateralisation Test.
- (f) **Exposures to credit institutions:** no valuation is given to this category for the purpose of the 85% Asset Coverage Test. No valuation is given to this category for purposes of the Over-Collateralisation Test unless:
- (i) the counterparty benefits from a credit quality step 1 as defined in Annex VI, points 29 to 32 of the CRD Directive. Receivables which are deposits can only be taken into account for the Over-Collateralisation Test, provided that their maturity date does not exceed 12 months from the date on which they are recorded in the Register of Cover Assets; or
 - (ii) the counterparty benefits from a credit quality step 2 and the maturity does not exceed 100 days from their registration in the Register of Cover Assets; and

in both cases, the value will be equal to the amount at which the assets are registered in the accounting statements of the issuing credit institution.

In all circumstances, the value of an asset that is 90 days past due is zero. The value of an asset that is 30 days past due will only be taken into account for 50% of the value as set out above.

8. LIQUIDITY TEST

Per special estate, the cover assets must over a period of six months generate sufficient liquidity or include enough liquid assets in order to enable the issuing credit institution to make all unconditional payments on the Belgian covered bonds (including principal, interest and other costs) falling due during the following six months (the **Liquidity Test**). As an Extended Final Maturity will be specified for each Series of Covered Bonds, payments of amounts due on the Final Maturity Date will not be considered as unconditional for the purpose of the Liquidity Test.

To comply with the Liquidity Test, the issuing credit institution will be entitled to enter into a liquidity facility provided that the counterparty is a credit institution outside the group that satisfies certain credit quality requirements. The Issuer currently does not have the intention to enter into a liquidity facility agreement in relation to the Special Estate but has the ability to do so pursuant to the Covered Bonds Legislation.

The liquidity that is made available pursuant to a liquidity facility is taken into account for the calculation of the Liquidity Test, provided that:

- the liquidity facility can be used only for payment on the Belgian covered bonds; and
- the funds drawn under the liquidity facility cannot be used for any other activities.

The funds drawn under the liquidity facility will be part of the special estate by operation of law.

If an issuing credit institution fails to meet the requirements of the Liquidity Test, it will have 14 days to take the necessary redress measures to meet the relevant requirements. As long as an issuing credit institution has not taken the necessary redress measures, it is not allowed to issue new Belgian covered bonds (under a programme or on a stand-alone basis).

9. LIMITATIONS ON ISSUE OF BELGIAN COVERED BONDS BY AN ISSUING CREDIT INSTITUTION

An issuing credit institution may no longer issue further Belgian covered bonds if the amount of the cover assets exceeds 8% of the total assets of such credit institution, except with the prior consent of the NBB. The NBB can specify which assets are to be taken into account for the purpose of calculating this 8% limit and how such assets should be valued.

The NBB can only temporarily authorise an issuing credit institution to issue covered bonds beyond the 8% limit when justified by exceptional circumstances on the financial markets which affect the issuing credit institution and which justify an increased use of such financing. The report to the Covered Bonds Royal Decree clarifies that these exceptional circumstances may be circumstances where the issuing credit institution would not have access to the unsecured funding markets.

In addition, for each credit institution issuing Belgian covered bonds, the NBB may determine a maximum percentage of Belgian covered bonds that may be issued by such institution compared to its balance sheet total. The NBB may request that a credit institution that issues Belgian covered bonds limits the issue volume of Belgian covered bonds in order to protect the credit institution's other creditors.

10. PARTIES

10.1 Cover Pool Monitor

For each Belgian covered bonds issue or issue programme, the issuing credit institution must appoint a cover pool monitor (*portefeuillesurveillant / surveillant de portefeuille*) approved by the NBB. The cover pool monitor is an auditor who is not the statutory auditor of the issuing credit institution.

Before the issue of Belgian covered bonds the cover pool monitor will need to take all reasonable measures to ensure that the issuing credit institution meets the following requirements:

- The cover assets meet the qualitative requirements that apply to cover assets registered in the Register of Cover Assets and limits set out in the Covered Bonds Legislation (see section 5 above).
- The cover assets meet the Cover Tests (see sections 6 and 7 above).
- The cover assets meet the Liquidity Test (see section 8 above).
- The requirements that apply to the cover register and the correct registration of cover assets in the cover register are complied with (see section 4.2 above).

The cover pool monitor must be able to verify all information which is recorded in the Register of Cover Assets.

After the issue of Belgian covered bonds, the cover pool monitor must perform these verifications at least once a year. However, the cover pool monitor will verify at least once a month that the Cover Tests, the Liquidity Test and the requirements for the cover register are complied with. The NBB Cover Pool Monitor Regulation contains provisions that specify how the cover pool monitor must perform its task.

The NBB can also request that the cover pool monitor performs other tasks and verifications.

The fees and cost of the cover pool monitor must be borne by the issuing credit institution.

KPMG Bedrijfsrevisoren represented by Mr. Erik Clinck, Accredited Auditor, Bourgetlaan 40, 1130 Brussels has been appointed as Cover Pool Monitor in relation to the Special Estate pursuant to 64/21 of the Credit Institutions Supervision Law by the Issuer. The appointment of KPMG Bedrijfsrevisoren represented by Mr. Erik Clinck, Accredited Auditor as Cover Pool Monitor was approved by the NBB. The tasks and duties of the Cover Pool Monitor are further described in the Covered Bonds Legislation.

10.2 Cover Pool Administrator

Until the appointment of a cover pool administrator (*portefeuillebeheerder / gestionnaire de portefeuille*) by the NBB, the issuing credit institution manages the special estate.

The NBB appoints a cover pool administrator for each special estate:

- (a) upon the adoption of a reorganisation measure as set out in Article 57 of the Credit Institutions Supervision Law against the issuing credit institution if such measure, in the opinion of the NBB, may negatively affect (*negatieve impact / impact négatif*) the Belgian covered bonds;
- (b) upon the initiation of winding-up proceedings (*liquidatieprocedure / procédure de liquidation*) against the issuing credit institution; or
- (c) where the NBB is of the opinion that the assessment of the situation of the issuing credit institution is such that it may seriously affect (*ernstig in gevaar kan brengen / de nature à mettre gravement en péril*) the interest of the Belgian covered bondholders

The NBB may also appoint a cover pool administrator upon the removal of the issuing credit institution from the list of Belgian covered bonds issuers.

Winding-up proceedings within the meaning of Article 3, §1, 9° of the Credit Institutions Supervision Law currently refer, in relation to the Issuer, to a bankruptcy within the meaning of the bankruptcy law of 8 August 1997.

In order to be appointed, the cover pool administrator must have the required expertise and experience and professional reliability. A number of further conditions apply as specified in the Cover Pool Administrator Royal Decree. Credit institutions established in the European Economic Area which are licensed to issue covered bonds with respect to similar assets or manage portfolios of mortgage loans or other assets which qualify as cover assets are deemed to satisfy such criteria.

It is not possible for the same party to perform both roles as cover pool administrator and insolvency administrator.

On designation, the cover pool administrator manages the special estate to the exclusion of the issuing credit institution. The cover pool administrator is legally entrusted with all necessary and relevant powers to manage the special estate. The purpose of such management is to ensure compliance with the obligations under the Belgian covered bonds in accordance with the issue conditions.

The cover pool administrator is allowed to enter into additional agreements on behalf of the special estate in order to improve the liquidity of the special estate.

The cover pool administrator can, among other things, perform the following tasks:

- ensure the payment of interest and principal on the Belgian covered bonds based on the amounts that are collected from the cover assets and, as the case may be, by making use of the available liquidity lines;
- ensure the collection of amounts that are due from the cover assets that constitute the special estate for the benefit of the covered bondholders and amend the cover register in order to take into account these payments;
- ensure the collection of overdue payments concerning cover assets, also by executing the guarantees, including the mortgages;
- without prejudice to Article 64/16 of the Credit Institutions Supervision Law and the contractual provisions that apply to the relevant covered bonds, sell the cover assets;
- invest the amounts collected from the cover assets in other eligible assets, pending payment of the interest and principal on the relevant covered bonds. Provided that the NBB has granted its consent, the 85% Asset Coverage Test will not be applied when the special estate is managed by the cover pool administrator;
- in the interest of the covered bondholders renegotiate the contractual terms of the receivables that are in default, provided that this is not prohibited pursuant to the contractual terms of the relevant covered bonds;
- execute transactions that relate to hedging instruments, provided that these hedging instruments exclusively purport to cover the interest rate risk and the other risks that are related to the cover assets or the relevant covered bonds;
- enter into additional obligations, in particular making use of liquidity lines, in order to guarantee compliance with the contractual conditions of the relevant covered bonds; and
- perform administrative tasks that the issuing credit institution has to perform pursuant to the contractual conditions of the relevant covered bonds.

The Cover Pool Administrator Royal Decree specifies that the Cover Pool Administrator will be required to consult with the representative in circumstances where, following an insolvency of the issuing credit institution, it deems it necessary to liquidate the special estate and redeem the covered bonds because it is of the view that the cover assets are no longer sufficient to cover the obligations under the covered bonds. Such consultation with the representative will be required if the Cover Tests are no longer met.

Without prejudice to its powers under Article 64/16 of the Credit Institutions Supervision Law, the cover pool administrator must obtain the approval of the NBB and of the representative of the Belgian covered bondholders for every transaction, including the sale of cover assets, if it would imply that the Cover Tests, the Liquidity Test or the contractual provisions would no longer be met or if there is a risk that they would no longer be met.

The cover pool administrator must:

- (a) verify whether the Cover Tests, the Liquidity Test and the contractual provisions regarding the relevant covered bonds are met;
- (b) inform the NBB and the representative(s) of the covered bondholders on (i) the outcome of the tests under (i) on a quarterly basis and (ii) the measures that have been taken if these tests have not been met; and
- (c) ensure that the periodic reports (required under the Covered Bonds Royal Decree) are sent to the NBB.

10.3 Representative of the holders of Belgian covered bonds

A representative may be appointed for holders of Belgian covered bonds that are part of the same issue or issue programme, provided that the issue conditions contain rules regarding the organisation of meetings of holders of Belgian covered bonds. These representatives may, within the limit of the missions that are entrusted to them, bind the holders of Belgian covered bonds of the relevant issue or issue programme towards third parties. The representative may act and represent the holders of Belgian covered bonds in any bankruptcy or analogous proceeding, without having to disclose the identity of the holders of Belgian covered bonds.

The representative performs its duties in the sole interest of the holders of Belgian covered bonds and, as the case may be, of other creditors of the special estate it represents.

Stichting KBC Residential Mortgage Covered Bonds Representative has been appointed as representative of the Covered Bondholders in relation to the Programme pursuant to Article 3, §1 23° of the Credit Institutions Supervision Law by the Issuer pursuant to the Representative Appointment Agreement. Its managing director is Amsterdamsch Trustee's Kantoor B.V. The tasks and duties of Stichting KBC Residential Mortgage Covered Bonds Representative as representative of the Covered Bondholders (the **Representative**) are further described in the Covered Bonds Legislation, the Conditions and the Representative Appointment Agreement.

The Representative may represent and bind the Covered Bondholders within the limits of the powers that are assigned to it (as specified in the Conditions (see Condition 14 (*The Representative*)) and in the Representative Appointment Agreement.

10.4 NBB

The NBB is responsible for supervising compliance with the Covered Bonds Legislation by issuing credit institutions.

As noted above, a Belgian credit institution requires a General Authorisation and a Specific Authorisation from the NBB to issue Belgian covered bonds. The prior authorisations of the NBB relate to (a) the organisational capacity of the credit institution to issue Belgian covered bonds and to provide the follow up and (b) whether a particular issue or issue programme complies with the legal requirements.

The appointment of the cover pool monitor must be approved by the NBB and the NBB appoints the cover pool administrator.

The NBB has an important role in the administration of the Covered Bonds Legislation. For instance the NBB:

- determines the policy in relation to the Covered Bonds Legislation and can amend the regulations of the NBB in relation to Belgian covered bonds;
- gives guidance under the Covered Bonds Legislation;
- maintains a register of issuers and Belgian covered bonds regulated under the Covered Bonds Legislation;
- will undertake an on-going supervisory role with respect to Belgian covered bond issuers; and
- has the power to give directions and impose sanctions.

The issuing credit institution and the cover pool monitor have ongoing obligations to provide to the NBB periodic information on compliance with the Covered Bonds Legislation and to inform the NBB if the Cover Tests and the Liquidity Test are not or are not likely to be met.

The issuing credit institution must also provide the NBB with all information concerning the registration of assets in the cover register and the steps that it has undertaken to ensure that records

are kept of the special estate, that the special estate is capable of satisfying the claims in respect of the Belgian covered bonds and certain other expenses for the maintenance, administration and liquidation of the special estate and that obligations under the Belgian covered bonds are timely paid.

The issuing credit institution must also inform the NBB if material changes are made to the programme.

If the issuing credit institution is (and remains) unable to meet the requirements of the Liquidity Test or any other specific requirements which applies to it as issuing credit institution of Belgian covered bonds, the NBB can impose a grace period during which this situation must be resolved. If the situation is not resolved after expiry of this grace period, the NBB can remove the issuing credit institution from the list of Belgian covered bonds issuers and revoke the issuing credit institution's license to issue Belgian covered bonds. In extremely urgent circumstances, the NBB can remove an issuing credit institution from the list of credit institutions that are authorised to issue Belgian covered bonds, without imposing a grace period.

The NBB can also publish warnings/statements indicating that a credit institution has failed to comply with the NBB's requests to meet the requirements of the Covered Bonds Legislation within a specified grace period. In addition, as part of its general supervisory function under the Credit Institutions Supervision Law, the NBB can – after hearing or inviting the issuing credit institution for a hearing – impose a fine of maximum Euro 2,500,000 per breach or Euro 50,000 per day of non-compliance.

The NBB has the power to impose administrative penalties on issuing credit institutions. Such administrative penalties may range from Euro 2,500 to Euro 2,500,000.

PROGRAMME DESCRIPTION

1. INTRODUCTION

The Issuer may from time to time issue Covered Bonds under the Programme. The aggregate principal amount of outstanding Covered Bonds in euro shall not at any time exceed EUR 10,000,000,000. All Covered Bonds issued under the Programme and the Other Cover Pool Creditors will benefit from (a) a recourse against the General Estate of the Issuer and (b) an exclusive recourse against the same Special Estate. All Covered Bonds outstanding from time to time shall be included in a list which can be consulted on the website of the NBB at www.nbb.be.

Under the Programme, the Issuer may issue Covered Bonds subject to the Conditions (and applicable Final Terms) set out in this Base Prospectus, but may also from time to time issue Covered Bonds subject to terms not contemplated by this Base Prospectus. In the latter case, the relevant form of terms of the Covered Bonds will be set out in a schedule to the Programme Common Terms Agreement.

The Covered Bonds will be issued pursuant to the terms of the Dealer Programme Agreement. The Covered Bonds will also have the benefit of an Agency Agreement, pursuant to which the Domiciliary Agent, the Paying Agent, Listing Agent and Registrar shall be appointed. The Issuer will enter into a Clearing Services Agreement with the NBB in relation to the Dematerialised Covered Bonds which will be represented by a book-entry in the records of the Securities Settlement System.

The Covered Bondholders will be represented by the Representative pursuant to the Representative Appointment Agreement which shall have the powers and rights conferred on it by the Covered Bonds Legislation, the applicable Conditions, including the Meeting Rules of the Covered Bondholders and the Representative Appointment Agreement. Furthermore, the Issuer has appointed a Cover Pool Monitor in accordance with the Covered Bonds Legislation. The Covered Bonds will also have the benefit of Programme Common Terms Agreement.

The Programme Common Terms Agreement, the Representative Appointment Agreement, the Agency Agreement, the Clearing Services Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Covered Bonds and/or the Special Estate and designated as a Programme Document by the Issuer and the Representative (as the same may be amended, supplemented, replaced and/or restated from time to time) are together referred to as the Programme Documents (the **Programme Documents**).

Pursuant to the terms of the Programme Documents, the Issuer shall be entitled to vary, approve or terminate the appointment of any agent or party thereto and/or appoint any additional or substitute agent or party (including (without limitation) in relation to the issue of any Covered Bond). The Issuer may also enter into any other agreement or document as it may from time to time deem necessary or appropriate in relation to the Programme or issuance of any Covered Bonds. Each of the Programme Documents shall further contain specific provisions for the amendment, supplement, replacement and/or restatement of such agreement and a reference to any Programme Document shall be deemed a reference to such agreement as the same may from time to time be amended, supplemented, replaced and/or restated.

2. PROGRAMME COMMON TERMS AGREEMENT

The Programme Common Terms Agreement provides that all Covered Bonds issued under the Programme shall be subject to and have the benefit of certain programme common terms regardless of whether the Covered Bonds are issued under the Base Prospectus or not. These Programme Common Terms specify that all Covered Bondholders will be represented by the Representative and will benefit from an exclusive right of recourse against the same Special Estate. These Programme Common Terms include in substance the following provisions of the Conditions: Condition 2.1 (*Residential Mortgage Covered Bonds*), Condition 3 (*Status of the Covered Bonds*), Condition 2.6 (*Issuer Undertaking*), Condition 8.1 (*Events of Default*) except for the definition of the events of

default which shall be defined in the conditions of the relevant Covered Bonds, Condition 8.3 (*Covered Bondholders' Waiver*), Condition 9 (*Priorities of Payment*), Condition 12 (*Covered Bonds Provisions*), Condition 13 (*Meeting Rules of Covered Bondholders*) and Condition 14 (*The Representative*). The Programme Common Terms Agreement and the Meeting Rules of Covered Bondholders provide that these programme common terms may only be amended in accordance with the provisions of the Programme Common Terms Agreement and of the Meeting Rules of Covered Bondholders.

Besides the Programme Common Terms, the Programme Common Terms Agreement also includes certain confirmations and undertakings of the Issuer. These confirmations and undertakings include the confirmation of the appointment of the Cover Pool Monitor and the Moody's Committed OC Undertaking (see *General Description of the Programme – Moody's Committed OC Undertaking*).

3. DEALER PROGRAMME AGREEMENT

On or about the date of the Base Prospectus, the Issuer and the Dealers enter into the Dealer Programme Agreement. The Dealer Programme Agreement will include the arrangements under which Covered Bonds may from time to time be agreed to be issued by the Issuer to, and subscribed by, the Dealers. The Dealer Programme Agreement will, *inter alia*, make provision for the price at which such Covered Bonds will be subscribed by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such subscription.

The Dealer Programme Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Series of Covered Bonds. The Dealer Programme Agreement will be supplemented on or around the date of each issuance by a subscription agreement, which will set out, *inter alia*, the relevant underwriting commitments (such agreement, the **Subscription Agreement**).

4. REPRESENTATIVE APPOINTMENT AGREEMENT

Pursuant to the terms of the Representative Appointment Agreement, Stichting KBC Residential Mortgage Covered Bonds Representative, a Dutch foundation (*stichting*) has been appointed as the Representative of the Covered Bondholders (the **Representative**). Its managing director is Amsterdamsch Trustee's Kantoor B.V.

The Representative has been appointed by the Issuer as representative of the Covered Bondholders in accordance with Article 64/19 § 2 of the Credit Institutions Supervision Law upon the terms and conditions set out in the Representative Appointment Agreement and the Conditions including the Meeting Rules of the Covered Bondholders.

The Representative can also be appointed to represent Other Cover Pool Creditors provided that those Other Cover Pool Creditors agree with such representation.

The powers, authorities and duties of the Representative are specified in the Representative Appointment Agreement and the Conditions including the Meeting Rules of the Covered Bondholders.

In exercising any of its powers, authorities and discretions, the Representative shall have regard to the overall interests of the Covered Bondholders and of the Other Cover Pool Creditors that have agreed to be represented by the Representative. The Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Covered Bondholders or such Other Cover Pool Creditors.

The Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Covered Bondholders and the Other Cover Pool Creditors that have agreed to be represented by the Representative but if, in the opinion of the Representative, there is a conflict between the interests the Covered Bondholders and

those Other Cover Pool Creditors, the Representative will have regard solely to the interest of the Covered Bondholders.

5. AGENCY AGREEMENT

Under the Agency Agreement, the Domiciliary Agent and the Paying Agent will undertake to ensure the payment of the sums due on the Covered Bonds and perform all other obligations and duties imposed on it by the Conditions and the Agency Agreement.

In addition, the Domiciliary Agent will perform the tasks described in the Clearing Services Agreement, which comprise *inter alia* providing the NBB as operator the Securities Settlement System with information relating to the issue of the Covered Bonds, the Base Prospectus and other documents required by law.

The Listing Agent will cause an application to be made to Euronext Brussels for the admission to trading of the Covered Bonds.

The Registrar will maintain a register for the registration of Registered Covered Bonds.

The Issuer has reserved the right at any time to vary or terminate the appointment of any Agent, Registrar, Calculation Agent and to appoint a successor Agent, Registrar or Calculation Agent and additional or successor agents *provided, however, that*:

- (i) the Issuer shall at all times maintain a Domiciliary Agent and the Domiciliary Agent will at all times be a participant in the Securities Settlement System;
- (ii) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Domiciliary Agent) with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority;
- (iii) so long as there are Registered Covered Bonds, the Issuer shall maintain a Registrar for the relevant Series of Registered Covered Bonds (which may be itself);
- (iv) in the case of Floating Rate Covered Bonds, the Issuer shall at all times maintain a Calculation Agent for the relevant Series of Covered Bonds (which may be itself); and
- (v) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive.

6. CLEARING SERVICES AGREEMENT

Pursuant to the Clearing Services Agreement, the NBB as operator of the Securities Settlement System will provide clearing services for the Issuer.

7. HEDGING AGREEMENTS

The Issuer or, upon its appointment by the NBB, the Cover Pool Administrator may, from time to time during the Programme, enter into interest rate swap agreements, and covered bonds swap agreements (together the **Hedging Agreements**) with one or more hedging counterparties (the **Hedging Counterparties**) for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets and/or the Covered Bonds.

The distribution or priority rules between the obligations towards Covered Bondholders and the Hedging Counterparties are determined in the Conditions. Reference is made to Condition 9 (*Priority of Payments*) in this respect.

8. LIQUIDITY FACILITY AGREEMENTS

The Issuer or, upon its appointment by the NBB, the Cover Pool Administrator may, from time to time during the Programme, enter into liquidity facility agreements (the **Liquidity Facility Agreements**) in relation to the Special Estate with one or more liquidity facility providers (the **Liquidity Facility Providers**) in order to improve the liquidity of the Special Estate.

The distribution or priority rules between the obligations towards Covered Bondholders and the Liquidity Facility Providers are determined in the Conditions. Reference is made to Condition 9 (*Priority of Payments*) in this respect.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Base Prospectus and have been filed with the FSMA, shall be incorporated in, and form part of, this Base Prospectus:

- the audited consolidated annual financial statements of the Issuer for the financial years ended 31 December 2010 and 31 December 2011, together, in each case, with the related statutory auditors' report;
- the semi-annual financial statements of the Issuer for the half year ended 30 June 2012; and
- the Extended Quarterly Report 3Q2012 of KBC Group NV.

Following the publication of this Base Prospectus a supplement may be prepared by the Issuer and approved by the FSMA in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in a document incorporated by reference therein) shall, to the extent applicable, be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of documents incorporated by reference in this Base Prospectus can be obtained from the registered office of the Issuer and the website of KBC Group NV at www.kbc.com.

The Issuer will, in the event of any significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Covered Bonds or any change in the condition of the Issuer which is material in the context of the Programme or the issue of any Covered Bonds, prepare and publish a supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of Covered Bonds. Furthermore, in connection with the listing of the Covered Bonds on Euronext Brussels, so long as any Covered Bond remains outstanding and listed on such exchange, in the event of any material adverse change in the financial condition of the Issuer which is not reflected in this Base Prospectus, the Issuer will prepare a further supplement to this Base Prospectus or publish a new base prospectus for use in connection with any subsequent issue of the Covered Bonds to be listed on Euronext Brussels.

If the terms of the Programme are modified or amended in a manner which would make this Base Prospectus, as supplemented, inaccurate or misleading, a new base prospectus will be prepared.

Specific items contained in “Documents Incorporated by Reference”

Documents	Page Number
<i>Audited consolidated annual financial statements of the Issuer and its consolidated subsidiaries for the financial year ended 31 December 2011*</i>	
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<i>Audited consolidated annual financial statements of the Issuer and its consolidated subsidiaries for the financial year ended 31 December 2010 *</i>	
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<i>Unaudited Half-Year Report 1H2012 of the Issuer *</i>	
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<i>Unaudited KBC Group NV 3Q2012 Extended Quarterly Report</i>	
Report on 3Q and 9M2012	5-15
Analysis of 3Q2012 underlying results	16-31
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* Page references are to the English language PDF version of the relevant incorporated documents.

Information contained in the documents incorporated by reference other than information listed in the table above is for informational purposes only.

GENERAL DESCRIPTION OF THE COVERED BONDS

Under the Programme, the Issuer may from time to time issue Covered Bonds, subject as set out herein. The applicable terms of any Covered Bonds will be agreed between the Issuer and the relevant Dealer(s) prior to the issue of the Covered Bonds and will be set out in the Terms and Conditions of the relevant Covered Bonds, as completed by the applicable Final Terms.

This Base Prospectus and any supplement will only be valid for issuing Covered Bonds in an aggregate nominal amount which, when added to the aggregate nominal amount then outstanding of all Covered Bonds previously or simultaneously issued under the Programme, does not exceed Euro 10,000,000,000, subject to increase as described herein.

The Issuer may also issue from time to time Covered Bonds under the Programme which shall be subject to terms and conditions and/or final terms not contemplated by this Base Prospectus. In such circumstances, the relevant forms of terms of such Covered Bonds will be set out in a schedule to the Programme Common Terms Agreement (as defined below).

FORM OF THE COVERED BONDS

FORM

The Covered Bonds can be issued in dematerialised form (**Dematerialised Covered Bonds**) or in registered form (**Registered Covered Bonds**).

Registered Covered Bonds will be registered in a register maintained by the Issuer or by a registrar on behalf of the Issuer (the **Registrar**) in accordance with Article 462 *et seq.* of the Belgian Company Code. Holders of Registered Covered Bonds can obtain a certificate demonstrating the registration of the Registered Covered Bonds in the register.

The Dematerialised Covered Bonds will be issued in dematerialised form in accordance with Articles 468 *et seq.* of the Belgian Company Code.

The Dematerialised Covered Bonds will be represented by a book entry in the records of the clearing system operated by the National Bank of Belgium (the **NBB**) or any successor thereto (the **Securities Settlement System**). The Dematerialised Covered Bonds can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking *société anonyme* (**Clearstream, Luxembourg**) and through other financial intermediaries which in turn hold the Dematerialised Covered Bonds through Euroclear and Clearstream, Luxembourg or other participants in the Securities Settlement System.

The Dematerialised Covered Bonds will be accepted for clearance (settlement) through the Securities Settlement System and will accordingly be subject to the Securities System Regulations. Holders of Dematerialised Covered Bond are entitled to exercise the rights they have, including exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Belgian Company Code) against the Issuer in accordance with the Conditions and without prejudice to the powers of the Representative upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Dematerialised Covered Bonds (or the position held by the financial institution through which their Covered Bonds are held with the NBB, Euroclear or such other participant, in which case an affidavit drawn up by that financial institution will also be required).

References to the Securities Settlement System, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Domiciliary Agent.

The Issuer and the Domiciliary Agent will not have any responsibility for the proper performance by the Securities Settlement System or its Participants of their obligations under their respective rules and operating procedures.

The Dematerialised Covered Bonds and the Registered Covered Bonds may not be exchanged for Covered Bonds in bearer form. Registered Covered Bonds may not be exchanged for Dematerialised Covered Bonds.

TITLE AND TRANSFER

Title to and transfer of Dematerialised Covered Bonds will be evidenced only by records maintained by the Securities Settlement System, Euroclear and Clearstream, Luxembourg or other Securities Settlement System participants and in accordance with the applicable rules and procedures for the time being of the Securities Settlement System, Euroclear and Clearstream, Luxembourg or other Securities Settlement System participants, as the case may be.

Title to and transfer of Registered Covered Bonds shall pass by registration of the transfer by the Issuer or by the Registrar in a register in accordance with Article 462 *et seq.* of the Belgian Company Code. Upon a sale or transfer of Registered Covered Bonds, the seller thereof will be required to complete the relevant

transfer documents and certificates which can be found at www.kbc.com or can be obtained from the Registrar.

Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Covered Bond shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it or its theft or loss and no person shall be liable for so treating the holder.

PAYMENTS

All payments of principal or interest owing under the Dematerialised Covered Bonds shall be made through the Domiciliary Agent and the Securities Settlement System in accordance with the Settlement System Regulations and the Clearing Services Agreement. The Issuer will validly discharge its payment obligations towards the Dematerialised Covered Bondholders by payment to the Securities Settlement System through the intervention of the Domiciliary Agent.

Payments of principal and interest in respect of Registered Covered Bonds shall be paid to the person shown on the register of the Registered Covered Bonds at the close of business on the fifteenth calendar day before the due date for payment thereof.

FORM OF FINAL TERMS

The following is the form of Final Terms which will be completed in relation to each Tranche of Covered Bonds (References to numbered Conditions are to the Terms and Conditions of the relevant Covered Bonds):

[Date]

Form of Final Terms

Set out below is the form of Final Terms which, subject to any necessary amendment, will be completed for each Tranche of Covered Bonds issued under the Programme. Text in this section appearing in italics does not form part of the Final Terms but denotes directions for completing the Final Terms.

[Date]

KBC Bank NV

Issue of [Aggregate Nominal Amount of Tranche] [Title of Covered Bonds]

Under the Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme

The Base Prospectus referred to below (as completed by this Final Terms) has been prepared on the basis that any offer of Covered Bonds in any Member State of the European Economic Area which has implemented the Prospectus Directive (2003/71/EC) (each, a **Relevant Member State**) will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Covered Bonds. Accordingly any person making or intending to make an offer in that Relevant Member State of the Covered Bonds may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor any Dealer has authorised, nor do they authorise, the making of any offer of Covered Bonds in any other circumstances.

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions set forth in the Base Prospectus dated [date] [and the supplement to the Base Prospectus dated [date]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the 2010 PD Amending Directive) to the extent that such amendments have been implemented in a relevant Member State. This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus [as so supplemented]. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of this Final Terms and the Base Prospectus. Copies of the Base Prospectus [and the supplement to the Base Prospectus] are available free of charge to the public at the registered office of the Issuer, from the specified office of the Domiciliary Agent and on the website www.kbc.com.

[The following alternative language applies if the first Tranche of an issue which is being increased was issued under a Base Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions (the **Terms and Conditions**) set forth in the Base Prospectus dated [original date] [and the supplement to the Base Prospectus dated [date]]. This document constitutes the final terms of the Covered Bonds described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the **Prospectus Directive**) as amended (which includes the amendments made by Directive 2010/73/EU (the 2010 PD Amending Directive) to the extent that such amendments have been implemented in a relevant Member State and must be read in conjunction with the Base Prospectus dated [current date] [and the supplement to the Base Prospectus dated [date]], which [together] constitute[s] a base prospectus for the purposes of the

Prospectus Directive, including the Terms and Conditions incorporated by reference in the Base Prospectus. Full information on the Issuer and the offer of the Covered Bonds is only available on the basis of the combination of these Final Terms and the Base Prospectus dated [original date] and [current date] [and the supplement to the Base Prospectus dated [date]]. These Final Terms and the Base Prospectus [and the supplement(s)][has][have] been published on the website of KBC Group NV at www.kbc.com [and are available free of charge to the public at the registered office of the Issuer and from the specified office of the Domiciliary Agent.]

[Include whichever of the following apply or specify as “Not Applicable” (N/A). Note that the numbering should remain as set out below, even if “Not Applicable” is indicated for individual paragraphs or subparagraphs.]

- | | | |
|----|--|---|
| 1. | Issuer: | KBC Bank NV |
| 2. | (a) Series Number: | [●] |
| | (b) Tranche Number: | [●] |
| | | <i>(If fungible with an existing Series, details of that Series, including the date on which the Covered Bonds become fungible)</i> |
| 3. | Specified Currency: | Euro (EUR) |
| 4. | Aggregate Nominal Amount of Covered Bonds: | [●] |
| | (a) [Series: | [●]] |
| | (b) [Tranche: | [●]] |
| 5. | Issue Price: | [●]% of the Aggregate Nominal Amount [plus accrued interest from [insert date] (in the case of fungible issues only, if applicable)] |
| 6. | Specified Denomination: | [●] |
| 7. | (a) Issue Date: | [●] |
| | (b) Interest Commencement Date: | [●] |
| 8. | (a) Final Maturity Date: | <i>[Fixed rate – specify date/Floating Rate – Interest Payment Date falling in or nearest to the relevant month and year]</i> |
| | Business Day Convention for Final Maturity Date: | [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable] |
| | Additional Business Centre(s): | [●] <i>(please specify other financial centres required for the Business Day definition)</i> |
| | (b) Extended Final Maturity Date: | <i>[Fixed rate – specify date/Floating rate – Interest Payment Date falling in or nearest to [specify month and year, in each case falling one year after the Final Maturity Date]]</i> |

- Business Day Convention for Final Maturity Date: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- Additional Business Centre(s): (please specify other financial centres required for the Business Day definition)
9. Interest Basis:
- (a) Period to (but excluding) Final Maturity Date: % Fixed Rate
[Floating Rate]
[Zero Coupon]
(further particulars specified below)
- (b) Period from Final Maturity Date to (but excluding) Extended Final Maturity Date: % Fixed Rate
[Floating Rate]
[Zero Coupon]
(further particulars specified below)
10. Redemption Basis: [Redemption at par]
11. Change of Interest Basis: [Specify details of any provision for convertibility of Covered Bonds into another Interest Basis]
12. (a) Status of the Covered Bonds: *Belgische pandbrieven/lettres de gage belges*
- (b) [Date [executive board (or similar)] approval for issuance of Covered Bonds obtained:]
(N.B Only relevant where executive board (or similar) authorisation is required for the particular tranche of Covered Bonds)

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13. Fixed Rate Covered Bond Provisions
- (a) To Final Maturity Date: [Applicable/Not Applicable]
- (b) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable]
(If (a) and (b) are not applicable, delete the remaining subparagraphs of this paragraph)
- (c) Rate[(s)] of Interest:
- (i) To Final Maturity Date: % per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)]] in arrear]
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] % per annum [payable [annually/semi-annually/quarterly/monthly/other (specify)]] in arrear]
- (d) Interest Period End Date(s):
- (i) To Final Maturity Date: in each year, starting on , up to and including the
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] in each year, starting on , up to and including
- (NB: This will need to be amended in the case of long or short coupons)*

- (e) Business Day Convention for Interest Period End Dates:
- (i) To Final Maturity Date: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (f) Interest Payment Date(s):
- (i) To Final Maturity Date: [[●] in each year up to and including the Final Maturity Date]/[Interest Payment Dates will correspond to Interest Period End Dates]
- (ii) From Final Maturity Date to Extended Final Maturity Date: [[●] in each year up to and including the Extended Final Maturity Date, if applicable]/[Interest Payment Dates will correspond to Interest Period End Dates] (provided however that after the Final Maturity Date, the Interest Payment Date shall be monthly)
- (g) Business Day Convention for Interest Payment Dates:
- (i) To Final Maturity Date: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (h) Additional Business Centre(s):
- (i) To Final Maturity Date: [●] (*please specify other financial centres required for the Business Day definition*)
- (ii) From Final Maturity Date to Extended Final Maturity Date: [●] (*please specify other financial centres required for the Business Day definition*)
- (i) Day Count Fraction:
- (i) To Final Maturity Date: (*Specify one of the options listed below*)
 [Actual/Actual (ICMA)]
 [Actual/Actual] or [Actual/Actual] (ISDA)]
 Actual/365 (Fixed)
 Actual/360
 [30/360] or [360/360] or [Bond Basis]
 [30E/360] or Eurobond Basis]
 [30E/360] (ISDA)
 1/1
- (ii) From Final Maturity Date to Extended Final Maturity Date: (*Specify one of the options listed below*)
 [Actual/Actual (ICMA)]
 [Actual/Actual] or [Actual/Actual] (ISDA)]
 Actual/365 (Fixed)
 Actual/360

[30/360] or [360/360] or [Bond Basis]
[30E/360] or Eurobond Basis]
[30E/360] (ISDA)
1/1
(see Condition 4.1 for alternatives)

- (j) Determination Date:
- (i) To Final Maturity Date: in each year
 - (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] in each year
[Insert regular Interest Period End Dates, ignoring issue date or maturity date in the case of a long or short first or last coupon]

(This will need to be amended in the case of regular Interest Period End Dates which are not of equal durations)

(N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA))

14. Floating Rate Covered Bond Provisions

- (a) To Final Maturity Date: [Applicable/Not Applicable]
- (b) From Final Maturity Date to Extended Final Maturity Date: [Applicable/Not Applicable]
(If (a) and (b) are not applicable, delete the remaining sub paragraphs of this paragraph)
- (c) Interest Period End Dates:
 - (i) To Final Maturity Date: in each year, starting on , up to and including the []
 - (ii) From Final Maturity Date to Extended Final Maturity Date: in each year, starting on , up to and including
(NB: This will need to be amended in the case of long or short coupons)
- (d) Business Day Convention for Interest Period End Dates:
 - (i) To Final Maturity Date: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
 - (ii) From Final Maturity Date to Extended Final Maturity Date: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (e) Interest Payment Dates:
 - (i) To Final Maturity Date: [in each year, starting on , up to and including the Final Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates]

- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] [] in each year, starting on [], up to and including the Extended Final Maturity Date] [Interest Payment Dates will correspond to Interest Period End Dates] (provided however that after the Final Maturity Date, the Interest Payment Date shall be monthly)
- (f) Business Day Convention for Interest Payment Dates:
- (i) To Final Maturity Date: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/Not Applicable]
- (g) Additional Business Centre(s):
- (i) To Final Maturity Date: [] (*please specify other financial centres required for the Business Day definition*)
- (ii) From Final Maturity Date to Extended Final Maturity Date: [] (*please specify other financial centres required for the Business Day definition*)
- (h) Manner in which the Rate(s) of Interest is/are to be determined:
- (i) To Final Maturity Date: [Screen Rate Determination/ISDA Determination]
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Screen Rate Determination/ISDA Determination]
- (i) Party responsible for calculating the Rate of Interest and Interest Amount:
- (i) To Final Maturity Date: (*Give name and address*)
- (ii) From Final Maturity Date to Extended Final Maturity Date: (*Give name and address*)
- (j) Screen Rate Determination:
- (i) To Final Maturity Date:
- Reference Rate: []
- (*Insert Euribor*)
- Interest Determination Date(s): [] [*the second day on which the TARGET2 System is open prior to the start of each Interest Period*]
- Relevant Screen Page: []
- (*In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately*)

- (ii) From Final Maturity Date to Extended Final Maturity Date:
Reference Rate:
(Insert relevant Euribor)
- Interest Determination Date(s): *(the second day on which the TARGET2 System is open prior to the start of each Interest Period)*
N.B. Specify the Interest Determination Date(s) up to and including the Extended Final Maturity Date, if applicable
- Relevant Screen Page:
(In the case of EURIBOR, if not Reuters EURIBOR 01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)
- (k) ISDA Determination:
- (i) To Final Maturity Date:
Floating Rate Option:
Designated Maturity:
Reset Date:
- (ii) From Final Maturity Date to Extended Final Maturity Date:
Floating Rate Option:
Designated Maturity:
Reset Date:
- (l) Margin(s):
- (i) To Final Maturity Date: [+/-][]% per annum
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] [+/-][]% per annum
- (m) Minimum Rate of Interest:
- (i) To Final Maturity Date: % per annum
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] % per annum
- (n) Maximum Rate of Interest:
- (i) To Final Maturity Date: % per annum
- (ii) From Final Maturity Date to Extended Final Maturity Date: [Not Applicable] % per annum
(With respect to any Interest Period, insert (i) Minimum Rate of Interest to floor the Rate of Interest; (ii) Maximum Rate of Interest to cap the Rate of Interest and (iii) Minimum Rate of Interest and

Maximum Rate of Interest to collar the Rate of Interest)

- (o) Day Count Fraction:
- (i) To Final Maturity Date: *(Specify one of the options listed below)*
[[Actual/Actual] or [Actual/Actual] (ISDA)
Actual/365 (Fixed)
Actual/360
[30/360] or [360/360] or [Bond Basis]
[30E/360] or [Eurobond Basis]
30E/360 (ISDA)
1/1
- (ii) From Final Maturity Date to
Extended Final Maturity Date: *(Specify one of the options listed below)*
[[Actual/Actual] or [Actual/Actual] (ISDA)
Actual/365 (Fixed)
Actual/360
[30/360] or [360/360] or [Bond Basis]
[30E/360] or [Eurobond Basis]
30E/360 (ISDA)
1/1
(See Condition 4.2(b) for alternatives)
15. Zero Coupon Covered Bond Provisions: [Applicable/Not Applicable][up to and including the
Final Maturity Date]
- (If not applicable, delete the remaining sub
paragraphs of this paragraph)*
- (a) Accrual Yield: [●]% per annum
- (b) Reference Price: [●]
- (c) Business Day Convention: [Floating Rate Convention/Following Business Day
Convention/Modified Following Business Day
Convention/Preceding Business Day Convention/
[specify other]]
- (d) Additional Business Centre(s): [●] *(please specify other financial centres required
for the Business Day definition)*
- (e) Day Count Fraction in relation to
Early Redemption Amounts and
late payments: Conditions [●]and [●] apply/specify other]

PROVISIONS RELATING TO REDEMPTION

16. Final Redemption Amount of each
Covered Bond: Principal Amount Outstanding/specify other
17. Early Redemption Amount:
Early Redemption Amount(s) per
Calculation Amount payable on
redemption for taxation reasons, illegality
or on event of default or other early
redemption: [[●]/Condition 6.3 applies]

GENERAL PROVISIONS APPLICABLE TO THE COVERED BONDS

18. Form of Covered Bonds: Dematerialised Covered Bonds/Registered Covered Bonds
19. Additional Financial Centre(s) or other special provisions relating to [Interest Payment Days]: [Not Applicable/give details]. Covered Bond that this item relates to the date and place of payment, and not interest period end dates, to which items [14(b) and 15(a) relates]
20. [Consolidation provisions:] [Not Applicable/The provisions [in Condition 18 (Further Issues)] apply]

DISTRIBUTION

21. (a) If syndicated, names of Managers: [Not Applicable/give names, addresses and underwriting commitments]
- (b) Date of Subscription Agreement [●]
- (c) Stabilising Manager(s) (if any): [Not Applicable/give name]
22. If non-syndicated, name of relevant Dealer: [Not Applicable/give name]
23. U.S. Selling Restrictions: Reg. S Compliance Category 2, TEFRA not applicable
24. Additional selling restrictions: [Not Applicable/give details]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and admission to trading on [the regulated market of Euronext Brussels][specify relevant regulated market] of the Covered Bonds described herein pursuant to the Euro 10,000,000,000 Residential Mortgage Covered Bonds Programme of KBC Bank.

STABILISATION

In connection with this issue, [insert name of Stabilising Manager(s)] (the **Stabilising Manager(s)**) (or any person acting for the Stabilising Manager(s)) may over-allot or effect transactions with a view to supporting the market price of the Covered Bonds at a level higher than that which might otherwise prevail for a limited period. However, there may be no obligation on the Stabilising Manager(s) (or any agent of the Stabilising Manager(s)) to do this. Such stabilising, if commenced, may be discontinued at any time and must be brought to an end after a limited period. Such stabilising shall be in compliance with all applicable laws, regulations and rules.

RESPONSIBILITY

The Issuer accepts responsibility for the information contained in these Final Terms. [(Relevant third party information) has been extracted from (specify source)]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by (specify source), no facts have been omitted which would render the reproduced information inaccurate or misleading.

Signed on behalf of the Issuer:

By:

Duly authorised

PART B – OTHER INFORMATION

1. LISTING AND ADMISSION TO TRADING

- 1.1 Admission to trading and admission to listing: [Application has been made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the regulated market of the [*specify relevant regulated market (for example Euronext Brussels, the Bourse de Luxembourg, the London Stock Exchange’s Regulated Market or the Regulated Market of the Irish Stock Exchange)*] and if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [●].] [Application is expected to be made by the Issuer (or on its behalf) for the Covered Bonds to be admitted to trading on the [*specify relevant regulated market (for example Euronext Brussels, the Bourse de Luxembourg, the London Stock Exchange’s Regulated Market or the Regulated Market of the Irish Stock Exchange)*] and if relevant, admission to an official list (for example, the Official List of the U.K. Listing Authority)] with effect from [●].] [Not Applicable.]

(Where documenting a fungible issue need to indicate that original Covered Bonds are already admitted to trading.)

- 1.2 Estimate of total expenses related to admission to trading: [●]

2. RATINGS

Ratings:

The Covered Bonds to be issued have been rated:

[Moody’s: [●]]

[Fitch: [●]]

[[Other]: [●]]

(The above disclosure should reflect the rating allocated to Covered Bonds of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.)

[Moody’s/Fitch] [is/are] established in the European Union and [is/are] registered for the purposes of the EU Regulation on credit rating agencies (Regulation (EC) No.106012009), as amended. As such [Moody’s/Fitch] [is/are] included in the list of credit rating agencies published by the European Securities and Markets Authority on its website in accordance with such Regulation.

[Other] is established in the European Union and [has made an application to be (but as at the date hereof is not)]/[is] registered for the purposes of the EU Regulation on credit rating agencies (Regulation (EC)No.106012009), as amended.

3. [HEDGING AGREEMENT

Hedging Agreement Provider:

Nature of Hedging Agreement:

4. [INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER]

Include a description of any interest, including conflicting ones, that is material to the issue/offer, detailing the persons involved and the nature of the interest. May be satisfied by the inclusion of the following statement:

“Save as discussed in [“Subscription and Sale”], so far as the Issuer is aware, no person involved in the offer of the Covered Bonds has an interest material to the offer.”] *Amend as appropriate if there are other interests*

[(When adding any other description, consideration should be given as to whether such matters described constitute “significant new factors” and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

5. REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES

[(i) Reasons for the offer:] *(See “Use of Proceed” wording in Base Prospectus – if reasons for offer different from general corporate purposes of the Issuer, will need to include those reasons here.)]*

[(ii) Estimated net proceeds:] *(If proceeds are intended for more than one use will need to split out and present in order of priority. If proceeds insufficient to fund all purposed uses state amount and sources of other funding)]*

[(iii) Estimated total expenses:] *[Include breakdown of expenses.]*

6. YIELD (Fixed Rate Covered Bonds Only)

Indication of yield:

[The yield is calculated on the basis of the Issue Price, the Rate of Interest applicable from and including the Interest Commencement Date until and excluding the Final Maturity Date, and the Final Redemption Amount. It is not an indication of future yield.]

7. OPERATIONAL INFORMATION

ISIN Code:

Common Code:

(insert here any other relevant codes such as CINS codes):

Any clearing system(s) other than the Securities Settlement System, Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme* and the relevant identification number(s): [Not Applicable/give name(s) and number(s)]

Delivery: Delivery [against/free of] payment

Names and addresses of Registrar (if different than Issuer):

Names and addresses of initial Domiciliary Agent and Paying Agent(s):

Names and addresses of additional Paying Agent(s) (if other than the Issuer):

Name and address of the Calculation Agent (if any):

Intended to be held in a manner which would allow Eurosystem eligibility:

[Yes][No] [Note that the designation “yes” simply means that the Covered Bonds to be held in a manner which would allow Eurosystem eligibility and does not necessarily mean that the Covered Bonds will be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]

TERMS AND CONDITIONS OF THE COVERED BONDS

The following are the Terms and Conditions of the Covered Bonds which, as completed by the applicable Final Terms in relation to any Tranche of Covered Bonds, will apply to the Covered Bonds. Reference should be made to “Form of the Final Terms” for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Tranche of Covered Bonds.

*The applicable Final Terms in relation to any Tranche of Covered Bonds may, in the case of any Covered Bonds which are neither to be admitted to trading on a regulated market within the European Economic Area nor offered to the public in an EEA State in circumstances which require the publication of a prospectus under the Prospectus Directive (**Exempt Covered Bonds**), specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Exempt Covered Bonds.*

The Issuer may also issue from time to time Covered Bonds under the Programme which shall be subject to terms and conditions and/or final terms not contemplated by this Base Prospectus. In such circumstances, the relevant forms of terms of such Covered Bonds will be set out in a schedule to the Programme Common Terms Agreement (as defined below).

KBC Bank NV (**KBC Bank** or the **Issuer**) has established a Residential Mortgage Covered Bonds Programme (the **Programme**) for the issuance of Belgian *pandbrieven/lettres de gage* governed by the Law of 3 August 2012 on the legal framework of Belgian covered bonds (*Wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor Belgische covered bonds / Loi du 3 août 2012 instaurant un regime legal pour les covered bonds belges*) (as implemented in Chapter VII of the Credit Institutions Supervision Law) as subsequently amended and/or supplemented (the **Covered Bonds Law**) (hereinafter the **Covered Bonds**).

The National Bank of Belgium (*Nationale Bank van België/Banque nationale de Belgique*) (the **NBB**) has admitted the Issuer to the list of credit institutions that have obtained the authorisation to issue Belgian covered bonds pursuant to Article 64/3, §1 of the Credit Institutions Supervision Law on 6 November 2012. The Programme has been admitted by the NBB to the list of authorised programmes for issue of *Belgische pandbrieven/lettres de gage* pursuant to Article 64/3, §2 of the Credit Institutions Supervision Law on 6 November 2012. Upon so being notified by the Issuer, the NBB shall regularly update such list with the Covered Bonds issued under the Programme and shall indicate that the Covered Bonds constitute Belgian *pandbrieven/lettres de gage* under the Covered Bonds Legislation.

As used herein, **Tranche** means Covered Bonds which are identical in all respects (including as to listing and admission to trading) and **Series** means a Tranche of Covered Bonds together with any further Tranche or Tranches of Covered Bonds which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

Each Tranche is the subject of a Final Terms (hereinafter the **Final Terms**) which completes these terms and conditions (hereinafter the **Conditions**). The terms and conditions applicable to any particular Tranche of Covered Bonds are these Conditions as completed by the applicable Final Terms.

All subsequent references in these Conditions to **Covered Bonds** are, unless the context otherwise requires, to the Covered Bonds of the relevant Series.

The relationship between the Issuer and KBC Bank as domiciliary agent, paying agent, listing agent and registrar (hereinafter the **Domiciliary Agent**, the **Paying Agent**, the **Listing Agent** and the **Registrar** which expression includes any successor agent or registrar appointed from time to time in connection with the Covered Bonds) and the other paying agents named in the agency agreement (together with the Domiciliary Agent, the Paying Agent, the Listing Agent and the Registrar the **Agents**, which expression includes any successor agent appointed from time to time in connection with the Covered Bonds) is determined in accordance with an agency agreement made between the Issuer, KBC Bank and the Representative, (such agency agreement as modified and/or supplemented and/or restated from time to time, the **Agency Agreement**) dated on or about 21 November 2012.

The Representative acts as representative of the Covered Bondholders within the meaning of article 3, §1 23° of the Credit Institutions Supervision Law in accordance with the provisions of the representative appointment agreement (such representative appointment agreement as modified and/or supplemented and/or restated from time to time, the **Representative Appointment Agreement**) dated on or about 21 November 2012 made between the Issuer and Stichting KBC Residential Mortgage Covered Bonds Representative as representative (in such capacity the **Representative**, which expression shall include any successor Representative) and with the Covered Bonds Legislation.

The Cover Pool Monitor has been appointed as cover pool monitor in relation to the Special Estate (as defined below) pursuant to 64/21 of the Credit Institutions Supervision Law and the Covered Bonds Legislation.

Pursuant to a programme common terms agreement entered into between the Issuer, the Representative and the Cover Pool Monitor (such programme common terms agreement as modified and/or supplemented and/or restated from time to time, the **Programme Common Terms Agreement**) dated on or about 21 November 2012, all Covered Bonds issued under the Programme shall be subject to and have the benefit of certain programme common terms regardless of whether the Covered Bonds are issued under the Base Prospectus or not.

The relationship between the Issuer and the NBB as operator of the Securities Settlement System (as hereinafter defined) in relation to the clearing of the Dematerialised Covered Bonds is governed by a clearing services agreement (such clearing services agreement as modified and/or supplemented and/or restated from time to time, the **Clearing Services Agreement**) that will be entered into between the Issuer, the Domiciliary Agent and the NBB and the Settlement System Regulations (as hereinafter defined).

The Issuer may, from time to time during the Programme, enter into interest rate swap agreements, and covered bonds swap agreements (together the **Hedging Agreements**) with one or more hedging counterparties (the **Hedging Counterparties**) for the purpose of, *inter alia*, protecting itself against certain risks (including, but not limited to, interest rate, liquidity and credit) related to the Cover Assets (as defined below) and/or the Covered Bonds.

The Issuer may, from time to time during the Programme, enter into liquidity facility agreements (the **Liquidity Facility Agreements**) in relation to the Special Estate with one or more liquidity facility providers (the **Liquidity Facility Providers**) in order to improve the liquidity of the Special Estate.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of:

- (a) the Agency Agreement;
- (b) the Representative Appointment Agreement;
- (c) the Programme Common Terms Agreement; and
- (d) the Clearing Services Agreement.

The Agency Agreement, the Representative Appointment Agreement, the Programme Common Terms Agreement, the Clearing Services Agreement, each of the Final Terms, any Hedging Agreement, any Liquidity Facility Agreement and any additional document entered into in respect of the Covered Bonds and/or the Special Estate and designated as a Programme Document by the Issuer and the Representative, are together referred to as the **Programme Documents**.

Copies of the Programme Documents are available for inspection during normal business hours at the registered office of the Issuer and at the Specified Office of the Domiciliary Agent and copies may be obtained from those offices save that, if the relevant Covered Bond is an Exempt Covered Bond, the applicable Final Terms will only be obtainable by a Covered Bondholder holding one or more Covered Bonds and such Covered Bondholder must produce evidence satisfactory to the Issuer and the Domiciliary Agent as to its holding of such Covered Bonds and identity. The Covered Bondholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the applicable Final Terms which are applicable to them. By subscribing for or otherwise acquiring the Covered Bonds, the

Covered Bondholders will also be deemed to have knowledge of, accept and be bound by all the provisions of, the other Programme Documents.

1. INTERPRETATION

Definitions

In these Conditions the following expressions have the following meanings:

Accrual Yield has, in relation to a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

Base Prospectus means the base prospectus in relation to the Programme dated 21 November 2012, as amended from time to time.

Belgian Company Code means the Belgian *Wetboek van Vennootschappen/Code des Sociétés*.

Business Day means a day which is both:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in Brussels and in each Additional Business Centre specified in the applicable Final Terms; and
- (b) a day on which the TransEuropean Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the **TARGET2 System**) is open.

Calculation Agency Agreement means any calculation agency that may be entered into by the Issuer with a third party in relation to the Covered Bonds.

Calculation Agent means the Issuer or any calculation agent appointed by the Issuer pursuant to a Calculation Agency Agreement, as specified in the applicable Final Terms.

Cover Assets means Residential Mortgage Loans that are registered in the Register of Cover Assets and all other assets listed in Article 64/3, § 3, 2° of the Credit Institutions Supervision Law that are included in the Special Estate pursuant to Article 64/8 of the Credit Institutions Supervision Law.

Cover Pool Administrator means any person or persons appointed (and any additional person or persons appointed or substituted) as a cover pool administrator (*portefeuillebeheerder/gestionnaire de portefeuille*) by the NBB pursuant to Article 64/13 of the Credit Institutions Supervision Law.

Cover Pool Administrator Royal Decree means the Royal Decree of 11 October 2012 on the cover pool administrator in the context of the issue of Belgian covered bonds by a Belgian credit institution (*Koninklijk Besluit van 11 oktober 2012 betreffende de portefeuillebeheerder in het kader van de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht / Arrêté Royal du 11 octobre 2012 relatif au gestionnaire de portefeuille dans le cadre de l'émission de covered bonds belges par un établissement de crédit de droit belge*) as subsequently amended and/or supplemented.

Cover Pool Creditors means the Covered Bondholders and the Other Cover Pool Creditors.

Cover Pool Monitor means a cover pool monitor (*portefeuillesurveillant/surveillant de portefeuille*) appointed in accordance with Article 64/21, §1 of the Credit Institutions Supervision Law and its representative (as approved by the NBB in accordance with the Covered Bonds Legislation).

Covered Bondholders or holders of Covered Bonds means the person in whose name a Registered Covered Bond is registered or, as the case may be, the holders from time to time of Dematerialised Covered Bonds as determined by reference to the records of the relevant clearing systems or financial intermediaries and the affidavits referred to in Condition 2 (*Type, Form, Denomination and Title*).

Covered Bonds Legislation means the Covered Bonds Law, the Mobilisation Law, the Covered Bonds Royal Decree, the Cover Pool Administrator Royal Decree, the NBB Covered Bonds

Regulation, the NBB Cover Pool Monitor Regulation and any other law, royal decree, regulation or order that may be passed or taken in relation to Belgian covered bonds.

Covered Bonds Royal Decree means the Royal Decree of 11 October 2012 on the issue of Belgian covered bonds by Belgian credit institutions (*Koninklijk Besluit van 11 oktober 2012 betreffende de uitgifte van Belgische covered bonds door kredietinstellingen naar Belgisch recht/Arrêté Royal du 11 octobre 2012 relatif à l'émission de covered bonds belges par des établissements de crédit de droit belge*) as subsequently amended and/or supplemented.

Credit Institutions Supervision Law means the law of 22 March 1993 on the status and supervision of credit institutions (*Wet op het statuut van en het toezicht op de kredietinstellingen / Loi relative au statut et au contrôle des établissements de crédit*) as subsequently amended and/or supplemented.

Day Count Fraction means, in respect of the calculation of an amount of interest for any Interest Period in accordance with Condition 4.2 (*Interest on Floating Rate Covered Bonds*):

- (a) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (b) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (c) If **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;
- (d) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (e) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (f) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless

(x) that day is the last day of February or (y) such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (x) that day is the last day of February but not the Final Maturity Date or (y) such number would be 31, in which case D₂ will be 30; and

- (g) if **1/1** is specified in the applicable Final Terms, 1.

Dematerialised Covered Bonds has the meaning given in Condition 2.2 (*Form*).

Determination Date has the meaning given in the applicable Final Terms.

Determination Period means the period from (and including) a Determination Date to (but excluding) the next Determination Date (including where either the Interest Commencement Date or if the final Interest Period End Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date).

Early Redemption Amount means the amount calculated in accordance with Condition 6.3 (*Early Redemption Amounts*).

Eligible Investor means a person who is entitled to hold securities through a so-called “X-account” (being an account exempted from withholding tax) in a settlement system in accordance with Article

4 of the Belgian Royal Decree of 26 May 1994 on the collection and refund of withholding tax (as amended or replaced from time to time).

euro means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty, as amended.

Event of Default has the meaning given in Condition 8.1 (*Events of Default*).

Excess Swap Collateral means an amount equal to the value of any collateral transferred to the Issuer by the Hedging Counterparty under the Hedging Agreement that is in excess of the Hedging Counterparty's liability to the Issuer thereunder (i) as at the termination date of the transaction entered into under such Hedging Agreement or (ii) as at any other date of valuation in accordance with the terms of the Hedging Agreement.

Exempt Investor has the meaning given in Condition 7 (*Taxation*).

Extraordinary Resolution has the meaning given in the Meeting Rules of Covered Bondholders.

Final Redemption Amount has the meaning given in the applicable Final Terms.

Fixed Day Count Fraction means, in respect of the calculation of an amount of interest in accordance with Condition 4.1 (*Interest on Fixed Rate Covered Bonds*):

- (a) if **Actual/Actual (ICMA)** is specified in the applicable Final Terms:
 - (i) in the case of Covered Bonds where the number of days in the relevant period from (and including) the most recent Interest Period End Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the **Accrual Period**) is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (1) the number of days in such Determination Period and (2) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or
 - (ii) in the case of Covered Bonds where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:
 - (A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; and
 - (B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year;
- (b) if **Actual/Actual** or **Actual/Actual (ISDA)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);
- (c) if **Actual/365 (Fixed)** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;
- (d) if **Actual/360** is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

- (e) if **30/360, 360/360** or **Bond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D₁ is greater than 29, in which case D₂ will be 30;

- (f) if **30E/360** or **Eurobond Basis** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D₁ will be 30; and

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D₂ will be 30;

- (g) if **30E/360 (ISDA)** is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Fixed Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

“Y₁” is the year, expressed as a number, in which the first day of the Interest Period falls;

“Y₂” is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“M₁” is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

“M₂” is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

“D₁” is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D₁ will be 30;

“D₂” is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Final Maturity Date or (ii) such number would be 31, in which case D₂ will be 30; and

(h) if 1/1 is specified in the applicable Final Terms, 1.

General Estate means the estate of the Issuer excluding any special estate(s) of the Issuer constituted pursuant to Article 64/8 of the Credit Institutions Supervision Law.

Interest Commencement Date means, in the case of interest-bearing Covered Bonds, the date specified in the applicable Final Terms from (and including) which the relevant Covered Bonds will accrue interest.

Interest Determination Date has the meaning specified in the applicable Final Terms.

Interest Payment Date means, in the case of interest-bearing Covered Bonds, the Interest Payment Date(s) in each year specified in the applicable Final Terms.

Interest Period means, in the case of interest-bearing Covered Bonds, the period from (and including) an Interest Period End Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Period End Date.

Interest Period End Date means, in the case of interest-bearing Covered Bonds, the Interest Period End Date(s) in each year specified in the applicable Final Terms.

Issue Date has the meaning given in the applicable Final Terms.

Margin has the meaning given in the applicable Final Terms.

Maximum Rate of Interest means, in the case of Floating Rate Covered Bonds, the Rate of Interest (if any) specified as such in the applicable Final Terms.

Meeting Rules of Covered Bondholders has the meaning assigned to it in Condition 13 (*Meeting Rules of Covered Bondholders*).

Minimum Rate of Interest means, in the case of Floating Rate Covered Bonds, the Rate of Interest (if any) specified as such in the applicable Final Terms.

Mobilisation Law means the Law of 3 August 2012 on various measures to facilitate the mobilisation of receivables in the financial sector (*Wet van 3 augustus 2012 betreffende diverse maatregelen ter vergemakkelijking van de mobilisering van schuldvorderingen in de financiële sector/Loi du 3 août 2012 relative à des mesures diverses pour faciliter la mobilisation de créances dans le secteur financier*) as subsequently amended and/or supplemented.

NBB Cover Pool Monitor Regulation means the Regulation of the National Bank of Belgium addressed to the cover pool monitors of Belgian credit institutions that issue Belgian covered bonds dated 29 October 2012 (*Circulaire aan de portefeuillesurveillanten van kredietinstellingen naar Belgisch recht die Belgische covered bonds uitgeven/ Circulaire aux surveillants de portefeuille auprès d'établissements de crédit de droit belge qui émettent des covered bonds belges*) as subsequently amended and/or supplemented.

NBB Covered Bonds Regulation means the Regulation of the National Bank of Belgium concerning the practical modalities for the application of the law of 3 August 2012 that establishes a legal regime for Belgian Covered Bonds dated 29 October 2012 (*Circulaire over de praktische regels voor de toepassing van de wet van 3 augustus 2012 tot invoering van een wettelijke regeling voor Belgische covered bonds/Circulaire sur les modalités pratiques d'application de la loi du 3 août 2012 instaurant un régime légal pour les covered bonds*) as subsequently amended and/or supplemented.

Notice of Default has the meaning given to it in Condition 8 (*Events of Default and Enforcement*).

Operational Creditors means (1) any servicer appointed to service the Cover Assets, (2) any account bank holding accounts or assets of the Issuer in relation to the Special Estate, (3) any stock exchange on which the Covered Bonds are listed and/or admitted to trading, (4) any auditor, legal counsel and tax advisor of the Issuer in relation to the Special Estate or the Programme, (5) any custodian of Cover Assets or assets in the Special Estate, (6) any rating agency appointed by the Issuer to rate the Programme or the Covered Bonds, (7) any agent or party appointed in accordance with the Programme Documents, (8) any other creditor of amounts due in connection with the management or administration of the Special Estate, and (9) any other creditor of the Issuer pursuant to any services provided or any transaction entered into in connection with the Covered Bonds, the Special Estate or the Programme, as notified by the Issuer to the Representative or as may from time to time be specified in the Conditions of any Covered Bonds issued under the Programme.

Ordinary Resolution has the meaning given in the Meeting Rules of Covered Bondholders.

Other Cover Pool Creditors means the Representative, any Cover Pool Administrator, the Cover Pool Monitor, the Agents, the Registrar, the Hedging Counterparties to Hedging Agreements constituting Cover Assets (if any), any Liquidity Facility Providers (if any) and any Operational Creditors.

Principal Amount Outstanding means, in respect of a Covered Bond on any day, the principal amount of that Covered Bond on the Issue Date thereof less principal amounts received by the relevant Covered Bondholder in respect thereof on or prior to that day, provided that the Principal Amount Outstanding in respect of a Covered Bond that has been purchased and cancelled by the Issuer shall be zero.

Programme Resolution has the meaning given in the Meeting Rules of Covered Bondholders.

Rate of Interest means, in the case of interest-bearing Covered Bonds, the rate of interest payable from time to time as described in Condition 4 (*Interest*).

Rating Agency means any rating agency (or its successor) who, at the request of the Issuer, assigns and for as long as it assigns, one or more ratings to the Covered Bonds under the Programme from time to time, which may include Moody's and Fitch.

Record Date has the meaning given in Condition 5.1(b) (*Payments in relation to Registered Covered Bonds*).

Reference Banks means the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Calculation Agent in its sole discretion.

Reference Price has, in respect of a Zero Coupon Covered Bond, the meaning given in the applicable Final Terms.

Reference Rate has the meaning given in the applicable Final Terms.

Register of Cover Assets means the register of Cover Assets established by the Issuer for the Covered Bonds issued under the Programme in accordance with Article 64/20 of the Credit Institutions Supervision Law.

Registered Covered Bonds has the meaning given in Condition 2.2 (*Form*).

Related Security means all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate.

Resolution means an Ordinary Resolution, an Extraordinary Resolution or a Programme Resolution.

Residential Mortgage Loans means loans that are secured by a mortgage on residential real estate as defined in article 2, 6° of the Covered Bonds Royal Decree.

Screen Rate Determination means, if specified as applicable in the applicable Final Terms, the manner in which the Rate of Interest on Floating Rate Covered Bonds is to be determined in accordance with Condition 4.2 (*Interest on Floating Rate Covered Bonds*).

Securities Settlement System has the meaning given in Condition 2.2 (*Form*).

Series Principal Amount Outstanding means, in respect of a Series of Covered Bonds on any day, the aggregate of the Principal Amount Outstanding of each of the Covered Bonds comprised in that Series.

Settlement System Regulations means Belgian clearing regulations, including the Belgian law of 6 August 1993 on transactions in certain securities, its implementing Belgian Royal Decrees of 26 May 1994 and 14 June 1994 and the rules of the Securities Settlement System and its annexes, as issued or modified by the NBB from time to time.

Special Estate means the special estate (*bijzonder vermogen/patrimoine special*) of the Issuer constituted pursuant to Article 64/8 of the Credit Institutions Supervision Law in relation to the Programme.

Specified Currency means the euro.

Specified Office means Havenlaan 2, B-1080 Brussels, Belgium or such office as notified to the Covered Bondholders by the Domiciliary Agent in accordance with Condition 19 (*Notices*).

Specified Time means 11.00 a.m. (Brussels time) in the case of EURIBOR.

Statutory Tests means the tests provided for in Article 64/7, §2 and §3 of the Credit Institutions Supervision Law as further specified in Articles 5 and 7 of the Covered Bonds Royal Decree.

Subordinated Termination Payment means, subject as set out below, any termination payments due and payable to any Hedging Counterparty under a Hedging Agreement where such termination results from (a) an Additional Termination Event "*Ratings Event*" as specified in the schedule to the relevant Hedging Agreement, (b) the bankruptcy of the relevant Hedging Counterparty, or (c) any default and/or failure to perform by such Hedging Counterparty under the relevant Hedging Agreement, other than, in the event of (a) or (b) above, the amount of any termination payment due and payable to such Hedging Counterparty in relation to the termination of such transaction to the extent of any premium received by the Issuer from a replacement hedging counterparty.

Sub-unit with respect to euro, means, one cent.

Treaty means the Treaty establishing the European Community, as amended.

Winding-up Proceedings means winding-up proceedings (*liquidatieprocedures/ procédures de liquidation*) within the meaning of article 3 §1 9° of the Credit Institutions Supervision Law.

2. TYPE, FORM, DENOMINATION AND TITLE

2.1 Residential Mortgage Covered Bonds

The Covered Bonds will be issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) in accordance with the Covered Bonds Legislation. The Covered Bonds will be covered in

accordance with the Covered Bonds Legislation by the same Special Estate of which the main asset category will consist of Residential Mortgage Loans, their Related Security and all monies derived therefrom from time to time in accordance with the Covered Bonds Legislation.

2.2 Form

The Covered Bonds can be issued in dematerialised form in accordance with Article 468 *et seq.* of the Belgian Company Code (**Dematerialised Covered Bonds**) or in registered form in accordance with Article 462 *et seq.* of the Belgian Company Code (**Registered Covered Bonds**).

Registered Covered Bonds will be registered in a register maintained by the Issuer or by the Registrar on behalf of the Issuer in accordance with Article 462 *et seq.* of the Belgian Company Code. Holders of Registered Covered Bonds can obtain a certificate demonstrating the registration of the Registered Covered Bonds in the register.

The Dematerialised Covered Bonds are issued in dematerialised form in accordance with Articles 468 *et seq.* of the Belgian Company Code. The Dematerialised Covered Bonds will be represented by a book entry in the records of the clearing system operated by the NBB or any successor thereto (the **Securities Settlement System**). The Dematerialised Covered Bonds can be held by their holders through the participants in the Securities Settlement System, including Euroclear Bank SA/NV (**Euroclear**) and Clearstream Banking *société anonyme* (**Clearstream, Luxembourg**) and through other financial intermediaries which in turn hold the Dematerialised Covered Bonds through Euroclear and Clearstream, Luxembourg or other participants in the Securities Settlement System. The Dematerialised Covered Bonds are transferred by account transfer. Payments of principal, interest and other sums due under the Dematerialised Covered Bonds will be made in accordance with the rules of the Securities Settlement System through the NBB. Holders of Dematerialised Covered Bonds are entitled to exercise the rights they have, including exercising their voting rights and other associative rights (as defined for the purposes of Article 474 of the Belgian Company Code) against the Issuer in accordance with the Conditions and without prejudice to the powers of the Representative, upon submission of an affidavit drawn up by the NBB, Euroclear, Clearstream, Luxembourg or any other participant duly licensed in Belgium to keep dematerialised securities accounts showing their position in the Dematerialised Covered Bonds (or the position held by the financial institution through which their Dematerialised Covered Bonds are held with the NBB, Euroclear, Clearstream, Luxembourg or such other participant, in which case an affidavit drawn up by that financial institution will also be required).

References to the Securities Settlement System, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms or as may otherwise be approved by the Issuer and the Domiciliary Agent.

The Dematerialised Covered Bonds and the Registered Covered Bonds may not be exchanged for Covered Bonds in bearer form. Registered Covered Bonds may not be exchanged for Dematerialised Covered Bonds.

2.3 Title and transfer

(a) Title

Title to and transfer of Registered Covered Bonds shall pass by registration of the transfer by the Issuer or by the Registrar in a register in accordance with Article 462 *et seq.* of the Belgian Company Code.

Title to and transfer of Dematerialised Covered Bonds will be evidenced only by records maintained by the Securities Settlement System, Euroclear and Clearstream, Luxembourg or other Securities Settlement System participants and in accordance with the applicable rules and procedures for the

time being of the Securities Settlement System, Euroclear and Clearstream, Luxembourg or other Securities Settlement System participants, as the case may be.

Except as ordered by a court of competent jurisdiction or as required by law, the holder of any Covered Bond shall be deemed to be and may be treated as its absolute owner for all purposes, whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, or its theft or loss and no person shall be liable for so treating the holder.

(b) Transfer

(i) Transfer documents and certificates

Upon a sale or transfer of Registered Covered Bonds, the seller thereof will be required to complete the relevant transfer documents and certificates which can be found at www.kbc.com or can be obtained from the Registrar.

(ii) Transfer free of charge

Transfer of Covered Bonds on registration, transfer, partial redemption or exercise of an option shall be effected without charge by or on behalf of the Issuer and/or the Registrar, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar may require).

(iii) Closed Period

No Covered Bondholder may require the transfer of a Registered Covered Bond to be registered (i) during the period of 15 calendar days ending on the due date for redemption of that Registered Covered Bond, (ii) after any such Registered Covered Bond has been called for redemption or (iii) during the period of 15 calendar days ending on (and including) the due date for payment of principal and/or interest in respect of Registered Covered Bonds.

2.4 Denomination

The Covered Bonds will be issued in such denomination as may be agreed between the Issuer and the relevant Dealer(s) and set out in the applicable Final Terms (the **Specified Denomination**) with a minimum specified denomination of Euro 100,000.

All Covered Bonds of the same Series will have the same Specified Denomination shown in the applicable Final Terms in relation to each Tranche comprising such Series.

2.5 Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds

The applicable Final Terms will indicate whether the Covered Bonds are Fixed Rate Covered Bonds, Floating Rate Covered Bonds or Zero Coupon Covered Bonds, or a combination of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

2.6 Issuer undertaking

For so long as the Covered Bonds are outstanding, the Issuer will ensure that

- (i) it will comply with the obligations applicable to it under the Covered Bonds Legislation;
- (ii) the value of the Residential Mortgage Loans registered as Cover Assets in the Register of Cover Assets calculated in accordance with the Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105 per cent. of the Series Principal Amount Outstanding of the Covered Bonds of all Series; and

- (iii) the Special Estate will at all times include liquid bonds meeting the criteria set out in article 7 of the NBB Covered Bonds Regulation and which (a) are eligible as collateral for Eurosystem monetary policy purposes and intra-day credit operations by the Eurosystem (b) have a credit quality step 1 as defined in the Directive 2006/48/EC of 14 June 2006 (the **CRD Directive**), (c) are subject to a daily mark-to-market and have a market value which, after applying the ECB haircut in accordance with the Guidelines of the ECB of 20 September 2011 on monetary policy instruments and procedures of the Eurosystem (as may be amended, supplemented, replaced and/or restated from time to time), is higher than the amount of interest due and payable on the outstanding Covered Bonds within a period of three months, (d) have a remaining maturity of more than three months, and (e) are not debt issued by the Issuer or residential mortgage backed securities (RMBS) of which the underlying assets have been originated by the Issuer or by a group related entity.

3. STATUS OF THE COVERED BONDS

The Covered Bonds will be issued as Belgian pandbrieven (*Belgische pandbrieven/lettres de gage belges*) in accordance with the Covered Bonds Legislation and will constitute direct, unconditional and unsubordinated obligations of the Issuer. The Covered Bonds will rank *pari passu* and rateably without any preference or priority among themselves, irrespective of their Series, and at least *pari passu* with all other present and future outstanding unsecured obligations of the Issuer, save for such obligations as may be preferred by law that are both mandatory and of general application. In addition, the Covered Bonds will be covered in accordance with the Covered Bonds Legislation by the Special Estate and the Covered Bondholders and the Other Cover Pool Creditors will have an exclusive right of recourse to the Special Estate.

4. INTEREST

4.1 Interest on Fixed Rate Covered Bonds

Each Fixed Rate Covered Bond bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest determined in accordance with this Condition 4.1. Interest will accrue in respect of each Interest Period and will be payable in arrear on the Interest Payment Date(s).

Interest shall be calculated in respect of any period by applying the Rate of Interest to, in the case of Dematerialised Covered Bonds, the relevant Series Principal Amount Outstanding or, in the case a Registered Covered Bond, the Principal Amount Outstanding of such Registered Covered Bond and, in either case, multiplying such sum by the applicable Fixed Day Count Fraction, and rounding the resultant figure to the nearest Sub-unit, half of any such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

4.2 Interest on Floating Rate Covered Bonds

(a) Interest Period End Dates and Interest Payment Date

Each Floating Rate Covered Bond bears interest at the rate per annum (expressed as a percentage) equal to the Rate of Interest (determined in accordance with Condition 4.2(b) (*Rate of Interest*)), from (and including) the Interest Commencement Date. Interest will accrue in respect of each Interest Period and will be payable in arrear on the Interest Payment Date(s). The amount of interest payable shall be calculated in accordance with Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*).

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Covered Bonds will be equal to the rate of interest determined in the following manner, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Covered Bonds

Where **ISDA Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph 4.2(b)(i), **ISDA Rate** for an Interest Period means a rate equal to the Floating Rate that would be determined by the Issuer or other person specified in the applicable Final Terms under an interest rate swap transaction if the Issuer or that other person were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Covered Bonds (the **ISDA Definitions**), and under which:

- (A) the Floating Rate Option is as specified in the applicable Final Terms;
- (B) the Designated Maturity is the period specified in the applicable Final Terms; and
- (C) the relevant Reset Date is either (I) if the applicable Floating Rate Option is based on the Euro-zone inter-bank offered rate (**EURIBOR**), the first day of that Interest Period or (II) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph 4.2(b)(i), (1) **Floating Rate, Calculation Agent, Floating Rate Option, Designated Maturity** and **Reset Date** have the meanings given to those terms in the ISDA Definitions and (2) **Euro-zone** means the region comprising the member states of the European Union that adopt or have adopted the single currency in accordance with the Treaty establishing the European Community, as amended from time to time.

When this Condition 4.2(b)(i) (*ISDA Determination for Floating Rate Covered Bonds*) applies, in respect of each relevant Interest Period the Calculation Agent will be deemed to have discharged its obligations under Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*) in respect of the determination of the Rate of Interest if it has determined the Rate of Interest in respect of such Interest Period in the manner provided in this subparagraph 4.2(b)(i).

(ii) Screen Rate Determination

(A) Where **Screen Rate Determination** is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

- I. the offered quotation (if there is only one quotation appearing on the relevant Screen Page); or
- II. the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page at the Specified Time on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Calculation Agent.

(B) If the Reference Rate is EURIBOR, and

- I. the Relevant Screen Page is not available or if, in the case of I above, no such offered quotation appears or, in the case of II above, fewer than three such offered quotations appear, in each case as at the Specified Time on the Interest Determination Date in question, the Calculation Agent shall request each of the Reference Banks as (defined below) to provide the Calculation Agent with its

offered quotation (expressed as a percentage rate per annum) for the Reference Rate at approximately the Specified Time on the Interest Determination Date in question;

- II. on any Interest Determination Date,
 - (a) two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean (rounded if necessary to the fifth decimal place with 0.000005 being rounded upwards) of such offered quotations plus or minus (as appropriate) the Margin (if any), all as determined by the Calculation Agent; or
 - (b) fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the Rate of Interest for the relevant Interest Period shall be the offered rate for deposits in euro for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean (rounded as provided above) of the offered rates for deposits in euro for a period equal to that which would have been used for the Reference Rate, at which, at approximately the Specified Time on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Calculation Agent suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in the Euro-zone inter bank market, as the case may be, plus or minus (as appropriate) the Margin (if any);
- III. five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations; and
- IV. the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period).

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

Where the Rate of Interest for any Interest Period is negative (whether by operation of a negative Margin or otherwise), then such Rate of Interest shall be deemed to be zero.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Calculation Agent will, at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. The Calculation Agent will notify the Domiciliary Agent and the Issuer, as applicable, of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Calculation Agent will calculate the amount of interest (the **Interest Amount**) payable on the Covered Bonds for the relevant Interest Period by applying the Rate of Interest to, in the case of Dematerialised Covered Bonds, the relevant Series Principal Amount Outstanding or, in the case a Registered Covered Bond, the Principal Amount Outstanding of such Registered Covered Bond and, in either case, and multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest Sub-unit, half of any such Sub-unit being rounded upwards or otherwise in accordance with applicable market convention.

(e) Notification of Rate of Interest and Interest Amounts

The Calculation Agent will promptly notify the Domiciliary Agent and the Issuer, as applicable, of each Interest Amount and the Domiciliary Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the other Agents and any stock exchange on which the relevant Floating Rate Covered Bonds are for the time being listed and notice thereof to be published in accordance with Condition 19 (*Notices*) as soon as possible after their determination but in no event later than the fourth Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Covered Bonds, are for the time being listed and to the Covered Bondholders in accordance with Condition 19 (*Notices*).

(f) Calculation Agent

If for any reason at any relevant time after the Issue Date, the Calculation Agent defaults in its obligation to determine the Rate of Interest and any Interest Amount in accordance with Conditions 4.2(b)(i) (ISDA Determination for Floating Rate Covered Bonds) or 4.2(b)(ii) above, and in each case in accordance with Condition 4.2(d) (*Determination of Rate of Interest and calculation of Interest Amounts*), the Issuer or upon the opening of Winding-up Proceedings against the Issuer, the Cover Pool Administrator, if the Calculation Agent is not the Issuer or the Representative, if the Calculation Agent is the Issuer may determine the Rate of Interest at such rate as, in its absolute discretion (having such regard as it may think fit to the foregoing provisions of this Condition, but subject always to any Minimum Rate of Interest or Maximum Rate of Interest specified in the applicable Final Terms), it shall deem fair and reasonable in all the circumstances or, as the case may be, the Issuer, the Cover Pool Administrator or the Representative, as applicable, may calculate the Interest Amount(s) in such manner as it shall deem fair and reasonable in all the circumstances but taking into account the provisions of the applicable Final Terms. In making any such determination or calculation, the Issuer, the Cover Pool Administrator or the Representative, as applicable, may appoint and rely on a determination or calculation by a calculation agent (which shall be an investment bank or other suitable entity of international repute). If such determination or calculation is made, the Issuer, the Cover Pool Administrator or the Representative, as applicable, shall as soon as reasonably practicable notify the Issuer, the Domiciliary Agent, the other Agents, the Issuer or the Representative, as applicable, and such stock exchange of such determination or calculation and each such determination or calculation shall be deemed to have been made by the Calculation Agent.

(g) Certificates to be Final

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 4.2 (*Interest*

on *Floating Rate Covered Bonds*), whether by the Issuer or the Representative shall (in the absence of wilful default, gross negligence, fraud or manifest error) be binding on the Issuer, the Domiciliary Agent, the other Agents and all Covered Bondholders and (in the absence as aforesaid) no liability to the Issuer or the Covered Bondholders, as applicable, shall attach to the Issuer or the Representative, as applicable, in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

4.3 Accrual of Interest

Each Covered Bond (or in the case of the redemption of part only of a Covered Bond, that part only of such Covered Bond) will cease to bear interest (if any) from the date for its redemption unless payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of: (a) the date on which all amounts due in respect of such Covered Bond have been paid; and (b) five days after the date on which the full amount of the moneys payable has been received by the Domiciliary Agent and notice to that effect has been given to the Covered Bondholders in accordance with Condition 19 (*Notices*).

4.4 Interest on Zero Coupon Covered Bonds

Zero Coupon Covered Bonds will be offered and sold at a discount to their nominal amount and will, subject to Condition 4.5 (*Interest Payments up to the Extended Final Maturity Date*), not bear periodic interest. When a Zero Coupon Covered Bond becomes repayable prior to its Final Maturity Date, it will be redeemed at the Early Redemption Amount calculated in accordance with Condition 6.3 (*Early Redemption Amounts*). In the case of late payment the amount due and repayable shall be calculated in accordance with Condition 6.8 (*Late Payment for Zero Coupon Covered Bonds*).

4.5 Interest Payments up to the Extended Final Maturity Date

If the maturity of the Covered Bonds is extended beyond the Final Maturity Date in accordance with Condition 6.1(c) (*Final redemption*):

- (a) the Covered Bonds then outstanding shall bear interest from (and including) the Final Maturity Date to (but excluding) the Extended Final Maturity Date or, if earlier, the relevant Interest Payment Date after the Final Maturity Date on which the Covered Bonds are redeemed, subject to Condition 4.3 (*Accrual of Interest*). In that event, interest shall be payable on the Covered Bonds at the rate determined in accordance with Condition 4.5(b) below on each Covered Bond then outstanding on each Interest Payment Date after the Final Maturity Date in respect of the Interest Period ending immediately prior to the relevant Interest Payment Date, subject as otherwise provided in the applicable Final Terms. The final Interest Payment Date shall fall no later than the Extended Final Maturity Date;
- (b) the rate of interest payable from time to time under Condition 4.5(a) above will be as specified in the applicable Final Terms and, where applicable, determined by the Calculation Agent fourteen Business Days after the Final Maturity Date in respect of the first such Interest Period and thereafter as specified in the applicable Final Terms; and
- (c) in the case of Covered Bonds which are Zero Coupon Covered Bonds, for the purposes of this Condition 4.5, the principal amount outstanding of each Covered Bond shall be the total amount otherwise payable by the Issuer on the Final Maturity Date in respect of such Covered Bond less any payments made by the Issuer in respect of such amount in accordance with the Conditions.

4.6 Business Day Conventions

If a **Business Day Convention** is specified in the applicable Final Terms in relation to any date (including, for the avoidance of doubt, any Final Maturity Date or Extended Final Maturity Date) and (x) if there is no numerically corresponding day in the calendar month in which such date should

occur or (y) if such date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

- (a) in the case of Floating Rate Covered Bonds, **the Floating Rate Convention**, the relevant Interest Period End Date (i) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (B) below shall apply *mutatis mutandis* or (ii) in the case of (y) above, shall be postponed to the next day which is a Business Day, unless it would thereby fall into the next calendar month, in which event (A) such Interest Period End Date shall be brought forward to the immediately preceding Business Day and (B) each subsequent Interest Period End Date shall be the last Business Day in the month;
- (b) the **Following Business Day Convention**, such date shall be postponed to the next day which is a Business Day;
- (c) the **Modified Following Business Day Convention**, such date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or
- (d) the **Preceding Business Day Convention**, such date shall be brought forward to the immediately preceding Business Day.

5. PAYMENTS

5.1 Method of payment

(a) Payments in relation to Dematerialised Covered Bonds

Subject as provided below, all payments of principal or interest owing under the Dematerialised Covered Bonds shall be made through the Domiciliary Agent and the Securities Settlement System in accordance with the Settlement System Regulations and the Clearing Services Agreement.

(b) Payments in relation to Registered Covered Bonds

Payments of principal and interest in respect of Registered Covered Bonds shall be paid to the person shown on the register of the Registered Covered Bonds at the close of business on the fifteenth calendar day before the due date for payment thereof (the **Record Date**).

5.2 Payments subject to fiscal laws

Payments will be subject in all cases to (a) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*) as applicable and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the **Code**) or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto.

No commissions or expenses shall be charged to the Covered Bondholders in respect of such payments.

5.3 Payment Day

If the date for payment of any amount in respect of any Covered Bond is not a Payment Day (as defined below), the holder thereof shall not be entitled to payment of the relevant amount due until the next following Payment Day and shall not be entitled to any interest or other payment in respect of any delay. For these purposes, **Payment Day** means any day which (subject to Condition 10 (*Prescription*)) is:

- (a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:
 - (i) Brussels; and
 - (ii) any Additional Financial Centre specified in the applicable Final Terms; and
- (b) a day on which the TARGET2 System is open.

5.4 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Covered Bonds shall be deemed to include, as applicable:

- (a) any additional amounts which may be payable with respect to principal under Condition 7 (*Taxation*) or under any undertakings or covenants given in addition thereto, or in substitution therefore, pursuant to the Agency Agreement;
- (b) the Final Redemption Amount;
- (c) the Early Redemption Amount; and
- (d) in relation to Zero Coupon Covered Bonds, the Amortised Face Amount (as defined in Condition 6.3. (c)).

Any reference in these Conditions to interest in respect of the Covered Bonds shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 7 (*Taxation*) or under any undertakings given in addition thereto, or in substitution therefore, pursuant to the Agency Agreement.

6. REDEMPTION AND PURCHASE

6.1 Final redemption

- (a) Unless previously redeemed or purchased and cancelled as specified below, each Covered Bond will be redeemed by the Issuer at the Final Redemption Amount specified in the applicable Final Terms in the Specified Currency on the Final Maturity Date.
- (b) An Extended Final Maturity Date shall be specified in the applicable Final Terms as applying to each Series of Covered Bonds.
- (c) Only if the Issuer has failed to pay the Final Redemption Amount in full within fourteen Business Days after the Final Maturity Date, then (subject as provided below) payment of the unpaid amount by the Issuer shall be deferred until the Extended Final Maturity Date and in such case the Final Redemption Amount will not be considered to have been due and payable on the Final Maturity Date, provided that any amount representing the Final Redemption Amount due and remaining unpaid on the Final Maturity Date may be paid by the Issuer on any Interest Payment Date occurring thereafter up to (and including) the Extended Final Maturity Date.
- (d) If, following the extension of the Final Maturity Date in accordance with Condition 6.1(c), the Issuer has, in the same month, the obligation to pay principal on two or more Series of Covered Bonds, it will make payments in respect of the Series of Covered Bonds where the Final Maturity Date has been extended prior to paying Series of Covered Bonds where the Final Maturity Date has not been extended. If the Issuer fails to pay the Final Redemption Amount in respect of such Covered Bonds with a later Final Maturity Date, payments of unpaid amounts shall be deferred in accordance with this Condition 6.1(c).
- (e) An extension of one Series shall not automatically result in an extension of any other Series.

- (f) Any payments which shall be subject to an extension in accordance with this Condition 6.1 shall not be considered as unconditional for the purpose of Article 7, §1 of the Covered Bonds Royal Decree.
- (g) The Issuer shall confirm to the Cover Pool Monitor, the Rating Agencies, any relevant Hedging Counterparty, the Representative, the Domiciliary Agent and the Paying Agent and any relevant stock exchange as soon as reasonably practicable and in any event at least four Business Days prior to the Final Maturity Date of any inability of the Issuer to pay in full the Final Redemption Amount in respect of a Series of Covered Bonds within fourteen Business Days after the Final Maturity Date. The Issuer shall give notice of the extension of the Final Maturity Date to the Extended Final Maturity Date to the Covered Bondholders of such Series as soon as reasonably practicable. Any failure by the Issuer to notify such parties shall not affect the validity or effectiveness of the extension nor give rise to any rights in any such party.
- (h) Failure to pay in full by the Issuer on the Final Maturity Date shall not constitute an Event of Default. However, failure by the Issuer to pay the Final Redemption Amount on the Extended Final Maturity Date will constitute an Event of Default.
- (i) If the maturity of any Covered Bonds is extended up to the Extended Final Maturity Date in accordance with this Condition 6.1, for so long as any of those Covered Bonds remains outstanding, the Issuer shall not issue any further Covered Bonds, unless the proceeds of issuance of such further Covered Bonds are applied by the Issuer on issuance in redeeming in whole or in part the relevant Covered Bonds in accordance with the terms hereof.
- (j) This Condition 6.1 shall only apply if the Issuer has insufficient funds available to redeem Covered Bonds in full on the relevant Final Maturity Date (or within fourteen Business Days thereafter).

6.2 Redemption for taxation reasons

The Covered Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time (if the relevant Covered Bond is not a Floating Rate Covered Bonds) or on any Interest Payment Date (if the relevant Covered Bond is a Floating Rate Covered Bonds), on giving not less than 30 nor more than 60 days' notice to the Domiciliary Agent and the Representative and, in accordance with Condition 19 (*Notices*), the Covered Bondholders (which notice shall be irrevocable), if:

- (a) on the occasion of the next payment due under the Covered Bonds, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*), as a result of any change in, or amendment to, the laws or regulations of Belgium or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Covered Bonds; and
- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, or provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Covered Bonds then due. Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Domiciliary Agent and the Representative a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

Covered Bonds redeemed pursuant to this Condition 6.2 (*Redemption for taxation reasons*) will be redeemed at their Early Redemption Amount referred to in Condition 6.3 (Early Redemption Amounts) together (if appropriate) with interest accrued to (but excluding) the date of redemption.

6.3 Early Redemption Amounts

For the purpose of Condition 6.1 (*Final redemption*), Condition 6.2 (*Redemption for taxation reasons*), Condition 6.4 (*Illegality*) and Condition 8 (*Events of Default and Enforcement*), the Early Redemption Amount in respect of any Covered Bonds shall be calculated as follows:

- (a) in the case of a Covered Bond with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;
- (b) in the case of a Covered Bond (other than a Zero Coupon Covered Bond) with a Final Redemption Amount which is or may be less or greater than the Issue Price, at the amount specified in the applicable Final Terms or, if no such amount is so specified in the applicable Final Terms, at its Principal Amount Outstanding; and
- (c) in the case of a Zero Coupon Covered Bond, at an amount (the **Amortised Face Amount**) calculated in accordance with the following formula:

$$\text{Early Redemption Amount} = \text{RP} \times (1 + \text{AY})^y$$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Covered Bonds to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Covered Bond becomes due and repayable and the denominator of which is 360.

6.4 Illegality

In the event that the Issuer determines that the performance of the Issuer's obligations under the Covered Bonds has or will become unlawful, illegal or otherwise prohibited in whole or in part as a result of compliance with any applicable present or future law, rule, regulation, judgment, order or directive of any governmental, administrative, legislative or judicial authority or power, or in the interpretation thereof, the Issuer having given not less than 10 nor more than 30 days' notice to Covered Bondholders and the Representative in accordance with Condition 16 (which notice shall be irrevocable), may, on expiry of such notice redeem all, but not some only, of the Covered Bonds of the relevant Series, each Covered Bond being redeemed at the Early Redemption Amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Domiciliary Agent and the Representative a certificate signed by two directors of the Issuer, stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

6.5 Purchases

The Issuer or any subsidiary, affiliate or holding company of the Issuer may at any time purchase or otherwise acquire Covered Bonds at any price in the open market either by tender or private agreement or otherwise.

Such Covered Bonds acquired by the Issuer may be held, reissued, resold or, at the option of the Issuer, transferred to the Domiciliary Agent for cancellation.

Unless otherwise indicated in the applicable Final Terms, Covered Bonds so acquired by the Issuer may be held in accordance with Article 64/17, §1 of the Credit Institutions Supervision Law or cancelled in accordance with this Condition 6.5.

6.6 Subscription to own Covered Bonds

The Issuer may subscribe to its own Covered Bonds in accordance with Article 64/17, §1 of the Credit Institutions Supervision Law.

Covered Bonds so subscribed by the Issuer may be held in accordance with Article 64/17, §1 of the Credit Institutions Supervision Law or cancelled in accordance with Condition 6.5.

6.7 Cancellation

All Covered Bonds which are redeemed will forthwith be cancelled.

6.8 Late Payment for Zero Coupon Covered Bonds

If the amount payable in respect of any Zero Coupon Covered Bond upon redemption of such Covered Bond pursuant to Condition 6.1, 6.2 above or 6.4 above or upon its becoming due and repayable as provided in Condition 8 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Covered Bond shall be the amount calculated as provided in Condition 6.3 above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Covered Bond becomes due and payable were replaced by references to the date which is the earlier of:

- (a) the date on which all amounts due in respect of such Zero Coupon Covered Bond have been paid; and
- (b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Covered Bonds has been received by the Domiciliary Agent and notice to that effect has been given to the Covered Bondholders in accordance with Condition 19 (*Notices*).

7. TAXATION

All payments of principal and interest in respect of the Covered Bonds by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed, levied, collected, withheld or assessed by or on behalf of Belgium or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such Taxes is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Covered Bondholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Covered Bond:

- (a) with respect to any payment in respect of any Dematerialised Covered Bond:
 - (iii) held by a holder of a Dematerialised Covered Bond which is liable to Taxes in respect of such Dematerialised Covered Bond by reason of its having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere holding of the Dematerialised Covered Bond; or
 - (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or
 - (v) held by a holder of a Dematerialised Covered Bond who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another paying agent of the Issuer in a member state of the European Union; or
 - (vi) where such withholding or deduction is imposed because the holder of the Dematerialised Covered Bonds is not an Eligible Investor (unless that person was an

- Eligible Investor at the time of its acquisition of the relevant Bond but has since ceased (as such term is defined from time to time under Belgian law) being an Eligible Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control), or is an Eligible Investor but is not holding the relevant Dematerialised Covered Bond in an exempt securities account with a qualifying clearing system in accordance with the Belgian law of 6 August 1993 relating to transactions in certain securities and its implementation decrees; or
- (vii) to a holder who is liable to such Taxes because the Dematerialised Covered Bonds were converted into registered Covered Bonds upon his/her request and could no longer be cleared through the Securities Settlement System; or
 - (viii) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption.
- (ii) with respect to any payment in respect of any Registered Covered Bond:
- (i) held by a holder of a Registered Covered Bond which is liable to Taxes in respect of such Covered Bond by reason of its having some connection with the jurisdiction by which such Taxes have been imposed, levied, collected, withheld or assessed other than the mere holding of the Registered Covered Bond; or
 - (ii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or
 - (iii) held by a holder of a Registered Covered Bond who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another paying agent of the Issuer in a member state of the European Union;
 - (iv) where such withholding or deduction is imposed because the holder of the Registered Covered Bonds is not to a holder who is an Exempt Investor (as defined below) (unless that person was an Exempt Investor at the time of its acquisition of the relevant Bond but has since ceased (as such term is defined from time to time under Belgian law) being an Exempt Investor by reason of a change in the Belgian tax laws or regulations or in the interpretation or application thereof or by reason of another change which was outside that person's control); or
 - (v) to a holder who is entitled to avoid such deduction or withholding by making a declaration of non-residence or other similar claim for exemption; or
 - (vi) presented for payment more than 30 calendar days after the Relevant Date (as defined below) except to the extent that the holder of the Registered Covered Bond would have been entitled to additional amount on presenting the same for payment on the expiry of such period of 30 calendar days; or
 - (vii) which is issued as a Zero Coupon Covered Bond or any other Registered Covered Bond which provides for the capitalisation of interest.

As used in this Condition:

Exempt Investor means a holder of a Registered Covered Bond that, as of the relevant interest payment date, (i) is not resident for tax purposes in Belgium and does not use the income producing assets to exercise a business or professional activity in Belgium, (ii) has been the legal owner (*eigenaar / propriétaire*) or usufructuary (*vruchtgebruiker / usufruitier*) of the Registered Covered Bond during the entire relevant interest period, (iii) has been registered with the Issuer as the holder of the Registered Covered Bond during the entire relevant interest

period, (iv) has provided the Issuer an affidavit in which it is certified that the conditions mentioned in points (i) and (ii) are complied with respect to such interest payment on or before the date such affidavit is required to be delivered to the Issuer and (v) complies with any further requirement imposed by any successor provision to the current relevant Belgian tax provisions.

Relevant Date in respect of any payment means the date on which such payment first becomes due.

8. EVENTS OF DEFAULT AND ENFORCEMENT

8.1 Events of Default

If any of the following events occurs and is continuing (each an **Event of Default**):

- (a) on the Extended Final Maturity Date in respect of any Series there is a failure to pay any amount of principal due on the Covered Bonds on such date and such default is not remedied within a period of 14 Business Days from the due date thereof; or
- (b) on any Interest Payment Date, a default in the payment of the amount of interest due on any Series occurs and such default is not remedied within a period of 14 Business Days from the due date thereof,

then the Representative may and shall, if it has been so directed by a request in writing by the holders of not less than 25% of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding but excluding the Covered Bonds held by the Issuer for the calculation of the percentage (with the Covered Bonds of all Series taken together as a single Series) or if so directed by a Programme Resolution (subject to being indemnified and/or secured and/or prefunded to its satisfaction), serve a notice (a **Notice of Default**) on the Issuer (copied to the Cover Pool Monitor, the NBB, the Rating Agencies and, if appointed, the Cover Pool Administrator). Following the service of a Notice of Default, (i) no further Covered Bonds will be issued and (ii) the Covered Bonds of each Series shall become immediately due and repayable on the date specified in the Notice of Default at the Early Redemption Amount, together with accrued interest thereon to the date of repayment.

8.2 Enforcement

The Representative may at any time, at its discretion and without further notice, take such proceedings against the Issuer and/or any other person as it may think fit to enforce the provisions of the Covered Bonds or any Programme Document.

No Covered Bondholder shall be entitled to proceed directly against the Issuer or to take any action with respect to the Programme Documents, the Covered Bonds, or the Cover Assets unless the Representative, having become bound so to proceed pursuant to a Resolution or a direction of the Covered Bondholders in accordance with the Conditions, as applicable, fails so to do within a reasonable period, fourteen Business Days being considered reasonable in this respect, and such failure shall be continuing.

8.3 Covered Bondholders' Waiver

For the avoidance of doubt, the Covered Bondholders waive, to the fullest extent permitted by law (i) all their rights whatsoever pursuant to Article 1184 of the Belgian Civil Code to rescind (*ontbinden/résoudre*), or demand in legal proceedings the rescission (*ontbinding/résolution*) of, the Covered Bonds and (ii) all their rights whatsoever in respect of Covered Bonds pursuant to Article 487 of the Belgian Company Code (right to rescind (*ontbinding/résolution*)).

9. PRIORITIES OF PAYMENTS

9.1 Post Event of Default Priority of Payments

Following delivery of a Notice of Default all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account (if any)) shall be applied on any Business Day in accordance with the following order of priority of payments (the **Post Event of Default Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full) provided that any such amount that is due to be paid hereunder has not been paid by the Issuer using funds not forming part of the Special Estate:

- (a) *first, pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts then due and payable to the Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Representative Appointment Agreement or any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (ii) to pay all amounts then due and payable to the Cover Pool Monitor together with interest and applicable VAT (or other similar taxes) thereon and (iii) upon its appointment in accordance with the Covered Bonds Legislation, to pay all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment and any costs and expenses incurred by or on behalf of the Special Estate;
- (b) *second, pari passu* and pro rata according to the respective amounts thereof, to pay any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;
- (c) *third, pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts of interest and principal then due and payable on any Covered Bonds, (ii) any amounts due and payable under any Hedging Agreement that constitutes a Cover Asset other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (iii) to pay all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;
- (d) *fourth, pari passu* and pro rata, according to the respective amounts thereof, to pay any amount due and payable to any Hedging Counterparties under any Hedging Agreement that constitutes a Cover Asset arising out of any Subordinated Termination Payment; and
- (e) *fifth*, once all Covered Bonds have been redeemed and following the payment in full of all items under (a) to (d) above, to pay any excess to the General Estate of the Issuer.

9.2 Early Redemption Priority of Payments

Following a decision by the Cover Pool Administrator to early redeem the Covered Bonds of all Series pursuant to Articles 64/16, 6° or 7° of the Credit Institutions Supervision Law and as long as no Notice of Default has been delivered all funds deriving from the Cover Assets or otherwise received or recovered by the Special Estate (whether in the administration, liquidation of the Special Estate or otherwise) (other than amounts or financial instruments standing to the credit of the swap collateral account (if any)) shall be applied on any Business Day in accordance with the following order of priority of payments (the **Early Redemption Priority of Payments**) (in each case only if and to the extent that payments of a higher priority have been made in full) provided that any such amount that is due to be paid hereunder has not been paid by the Issuer using funds not forming part of the Special Estate:

- (a) *first, pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts then due and payable to the Representative (including remuneration or amounts by way of indemnity payable to it) under the provisions of the Representative Appointment Agreement or

any other Programme Document together with interest and applicable VAT (or other similar taxes) thereon to the extent provided therein, (ii) to pay all amounts then due and payable to the Cover Pool Monitor together with interest and applicable VAT (or other similar taxes) thereon, (iii) upon its appointment in accordance with the Covered Bonds Legislation, to pay all amounts then due to any Cover Pool Administrator (including any of its representatives or delegates) pursuant to the conditions of its appointment and any costs and expenses incurred by or on behalf of the Special Estate and (iv) to pay any amounts, fees, costs, charges, liabilities, expenses and taxes due and payable by the Issuer or the Special Estate to the Operational Creditors;

- (b) *second, pari passu* and pro rata according to the respective amounts thereof, (i) to pay all amounts of interest and principal then due and payable on any Covered Bonds, (ii) any amounts due and payable under any Hedging Agreement that constitutes a Cover Asset other than the Subordinated Termination Payments to any Hedging Counterparties under any such Hedging Agreements, and (iii) to pay all amounts due and payable under any Liquidity Facility Agreement to any Liquidity Facility Provider;
- (c) *third, pari passu* and pro rata, according to the respective amounts thereof, to pay any amount due and payable to any Hedging Counterparties under any Hedging Agreement that constitutes a Cover Asset arising out of any Subordinated Termination Payment; and
- (d) *fourth*, once all Covered Bonds have been redeemed and following the payment in full of all items under (a) to (d) above, to pay any excess to the General Estate of the Issuer.

10. PRESCRIPTION

Claims against the Issuer for payment of principal and interest in respect of the Covered Bonds will be prescribed and become void unless made, in the case of principal, within ten years or, in the case of interest, five years after their due date, unless application to a court of law for such payment has been initiated on or before such respective time. The due date for Covered Bonds of which the Final Maturity Date has been extended shall be the Extended Final Maturity Date.

11. AGENTS

- (a) In acting under the Agency Agreement and in connection with the Covered Bonds, the Agents act solely as agents of the Issuer and do not assume any obligations towards or relationship of agency or trust for or with any of the Covered Bondholders.
- (b) The initial Agents, the Registrar, and their initial specified offices are set forth in the Base Prospectus. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent, Registrar, Calculation Agent and to appoint a successor Agent, Registrar or Calculation Agent and additional or successor paying agents *provided, however, that*:
 - (i) the Issuer shall at all times maintain a Domiciliary Agent and the Domiciliary Agent will at all times be a participant in the Securities Settlement System;
 - (ii) so long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Domiciliary Agent) with a specified office in such place as may be required by the rules and regulations of such stock exchange or other relevant authority;
 - (iii) so long as there are Registered Covered Bonds, the Issuer shall maintain a Registrar for the relevant Series of Registered Covered Bonds (which may be itself);
 - (iv) in the case of Floating Rate Covered Bonds, the Issuer shall at all times maintain a Calculation Agent for the relevant Series of Covered Bonds (which may be itself); and
 - (v) the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the

taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive.

Notice of any change in any of the Agents, the Registrar or the Calculation Agent or in their specified offices shall promptly be given to the Covered Bondholders in accordance with Condition 19 (*Notices*).

12. COVERED BONDS PROVISIONS

12.1 Criteria for the transfer of assets by the General Estate to the Special Estate

If the Issuer holds amounts as provided for in Article 64/8, § 2, 1, 4° of the Credit Institutions Supervision Law, for the account of a Special Estate, and these amounts cannot be identified in the General Estate when the delivery of these assets is requested on behalf of the Special Estate, the ownership right in relation to these amounts that are part of the Special Estate will be transferred for a corresponding value to other unencumbered assets in the General Estate of the Issuer pursuant to Article 64/8, §2 of the Credit Institutions Supervision Law. These assets will be identified in accordance with the following criteria to be applied in the following order of priority:

- (a) bonds that are ECB eligible (**ECB Eligible Bonds**);
- (b) *failing which*, bonds other than ECB Eligible Bonds mentioned under (a) above;
- (c) *failing any of the above*, such assets as the representative of the Special Estate (the Cover Pool Administrator, failing which the Cover Pool Monitor) may select in its own discretion.

12.2 Use of swap collateral

Any collateral provided to the Issuer in the context of a Hedging Agreement that constitutes a Cover Asset, may only be used in order to satisfy the obligations that relate to the Special Estate and in accordance with the provisions of the relevant Hedging Agreement.

12.3 Priority Rules regarding security interest securing both Cover Assets and assets in the General Estate

If a security interest (including any mortgage and mortgage mandate) secures both Cover Assets and assets in the General Estate, all sums received out of the enforcement of the security interest will be applied in priority to satisfy the obligations in relation to the relevant Cover Assets. Any proceeds of enforcement of such security interest can only be applied in satisfaction of the obligations of the relevant assets in the General Estate once all sums owed to the Special Estate in respect of the relevant Cover Assets are irrevocably repaid in full.

13. MEETING RULES OF COVERED BONDHOLDERS

The Meeting Rules of Covered Bondholders (the **Meeting Rules of Covered Bondholders**) are attached to, and form an integral part of, these Conditions. References in these Conditions to the Meeting Rules of Covered Bondholders include such rules as from time to time modified in accordance with the provisions contained therein and any agreement or other document expressed to be supplemental thereto.

Articles 568 to 580 of the Belgian Company Code relating to the bondholders' meetings shall not apply to any Covered Bonds.

14. THE REPRESENTATIVE

The Representative has been appointed by the Issuer as representative of the Covered Bondholders in accordance with Article 64/19 § 2 of the Credit Institutions Supervision Law upon the terms and conditions set out in the Representative Appointment Agreement and herein.

As long as the Covered Bonds are outstanding, there shall at all times be a representative of the Covered Bondholders in accordance with Article 64/19, §2 of the Credit Institutions Supervision Law, which has the power to exercise the rights conferred on it by these Conditions, the Meeting Rules of Covered Bondholders, the Representative Appointment Agreement and the Covered Bond Legislation in order to protect the interests of the Covered Bondholders.

By reason of holding Covered Bonds, each Covered Bondholder:

- (a) recognises the Representative as its representative and (to the fullest extent permitted by law) agrees to be bound by any agreement entered into from time to time by the Representative in such capacity as if such Covered Bondholder were a signatory thereto; and
- (b) acknowledges and accepts that the Issuer shall not be liable, except in case of fraud, in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Covered Bondholders as a result of the performance by the Representative of its duties or the exercise of any of its rights under these Conditions (including the Meeting Rules of Covered Bondholders).

The Representative may also be appointed to represent Other Cover Pool Creditors provided that such Other Cover Pool Creditors agree with such representation.

15. CONFLICTS OF INTEREST

In exercising any of its powers, authorities and discretions vested in it, the Representative shall have regard to the overall interests of the Covered Bondholders of all Series taken together and of the Other Cover Pool Creditors that have agreed to be represented by the Representative. The Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Covered Bondholders or such Other Cover Pool Creditors.

The Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Covered Bondholders and the Other Cover Pool Creditors that have agreed to be represented by the Representative but if, in the opinion of the Representative, there is a conflict between the interests the Covered Bondholders and those Other Cover Pool Creditors, the Representative will have regard solely to the interest of the Covered Bondholders.

16. MEETINGS OF COVERED BONDHOLDERS

16.1 Meetings of Covered Bondholders

The Meeting Rules of Covered Bondholders contain provisions for convening meetings of the Covered Bondholders of each Series to consider matters relating to the Covered Bonds, including the modification or waiver of any provision of the Conditions. For the avoidance of doubt any such modification or waiver shall be subject to the consent of the Issuer or, upon the opening of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, except as provided otherwise in the Meeting Rules of the Covered Bondholders.

All meetings of Covered Bondholders will be held in accordance with the Meeting Rules of Covered Bondholders. The Articles 568 to 580 of the Belgian Company Code shall not apply to any issuance of Covered Bonds.

16.2 Written Resolution

Except in relation to a Programme Resolution to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 64/16, 7° of the Credit Institutions Supervision Law, a resolution in writing signed by or on behalf of holders of 50% of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding shall take effect as a Programme Resolution. A resolution in

writing signed by or on behalf of holders of two thirds of the Series Principal Amount Outstanding of the relevant Series of Covered Bonds outstanding shall take effect as an Extraordinary Resolution. A written resolution signed by the holders of 50% of the Series Principal Amount Outstanding of the relevant Series of the Covered Bonds outstanding shall take effect as if it were an Ordinary Resolution. Such resolutions in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Covered Bondholders.

17. AMENDMENTS TO THE CONDITIONS AND WAIVERS

Amendments to and waivers of the Conditions shall be made in accordance with the Meeting Rules of Covered Bondholders.

18. FURTHER ISSUES

The Issuer may from time to time, subject to Condition 6.1(i), without the consent of the Covered Bondholders, create and issue further Covered Bonds having the same terms and conditions as the Covered Bonds in all respects (or in all respects except for the first payment of interest thereon, issue date and/or issue price) so as to form a single series with the Covered Bonds and provided that (a) the Rating Agencies have been notified of such issuance and (b) if applicable, in respect of any Series or Tranche, a Hedging Agreement is entered into.

19. NOTICES

Notices to be given by any holder of Covered Bonds (including notices to convene a meeting of Covered Bondholders) shall be in writing and given by lodging the same, with the Domiciliary Agent and the Representative. Notices to be given to the holders of Dematerialised Covered Bonds (including notices to convene a meeting of Covered Bondholders) shall be deemed to have been duly given to the relevant Covered Bondholders if sent to the Securities Settlement System, Euroclear and Clearstream, Luxembourg for communication by them to the holders of the Dematerialised Covered Bonds and shall be deemed to be given on the date on which it was so sent.

All notices to holders of Registered Covered Bonds (including notices to convene a meeting of Covered Bondholders) will be mailed by regular post or by fax to the holders at their respective addresses or fax numbers appearing in the register of Registered Covered Bonds.

If sent by post, notices will be deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. If sent by fax, notices will be deemed to have been given upon receipt of a confirmation of the transmission.

So long as the Covered Bonds are listed on any stock exchange or admitted to listing by any other relevant authority and if the rules of the exchange so require, any notice shall also be published in accordance with the rules and regulations of such stock exchange or other relevant authority.

No notifications in any such form will be required for convening meetings of Covered Bondholders if all Covered Bondholders have been identified and have been given an appropriate notice by registered mail.

Notwithstanding the above, the Representative shall be at liberty to approve any other method of giving notice to Covered Bondholders if, in its opinion, such other method is reasonable having regard to the then-prevailing market practice and rules of the competent authority, stock exchange, clearing system or, as the case may be, quotation system on which the Covered Bonds are then admitted to trading.

20. GOVERNING LAW AND JURISDICTION

The Covered Bonds and all matters arising from or connected with the Covered Bonds (and any non-contractual obligations arising out of or in connection with the Covered Bonds) are governed by, and shall be construed in accordance with, Belgian law.

The courts of Brussels, Belgium are to have exclusive jurisdiction to settle any dispute, arising from or connected with the Covered Bonds (including any disputes relating to any non-contractual obligations arising out of or in connection with the Covered Bonds).

MEETING RULES OF THE COVERED BONDHOLDERS

PART 1 – GENERAL PROVISIONS

1. INTRODUCTION

- 1.1 The purpose of these meeting rules of the Covered Bondholders (the **Meeting Rules**) is to co-ordinate the exercise of the rights of the Covered Bondholders and, more generally, to take any action necessary or desirable to protect the interest of the Covered Bondholders.
- 1.2 The Meeting Rules in respect of each Series of Covered Bonds issued under the Programme by the Issuer apply concurrently with the issuance and subscription of the Covered Bonds and each such Series is governed by these Meeting Rules.
- 1.3 The contents of the Meeting Rules are deemed to be an integral part of the Conditions of the Covered Bonds of each Series issued by the Issuer.
- 1.4 The Meeting Rules shall remain in full force and effect until full repayment or cancellation of all the Covered Bonds of whatever Series.
- 1.5 Each Covered Bondholder is a member of the meeting of Covered Bondholders held in accordance with these Meeting Rules.
- 1.6 Articles 568 to 580 of the Belgian Company Code do not apply in relation to the meetings of Covered Bondholders.

2. DEFINITIONS

2.1 Definitions

In these Meeting Rules the following expressions have the following meanings:

Block Voting Instruction shall mean a document in Dutch or French (with a translation in English) issued by the Recognised Accountholder or Securities Settlement System and dated in which:

- (a) it is certified that Dematerialised Covered Bonds (not being Dematerialised Covered Bonds in respect of which a Voting Certificate has been issued and is outstanding in respect of the meeting specified in such Block Voting Instruction and any such adjourned meeting) of a specified principal amount outstanding were (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to its order or under its control and blocked by it and that no such Dematerialised Covered Bonds will cease to be so held and blocked until the first to occur of:
 - (i) the conclusion of the meeting specified in such document or, if applicable, any such adjourned meeting; and
 - (ii) the giving of notice by the Recognised Accountholder or the Securities Settlement System to the Issuer in accordance with Clause 8.5 hereof, stating that certain of such Dematerialised Covered Bonds cease to be held with it or under its control and blocked and setting out the necessary amendment to the Block Voting Instruction;
- (b) it is certified that each holder of such Dematerialised Covered Bonds has instructed such Recognised Accountholder or Securities Settlement System, that the vote(s) attributable to the Dematerialised Covered Bond(s) so held and blocked should be cast in a particular way in relation to the resolution or resolutions to be put to such meeting or any such adjourned meeting and that all such instructions are during the period commencing three (3) Business Days prior to the time for which such meeting or any such adjourned meeting is convened and ending at the conclusion or adjournment thereof neither revocable nor capable of amendment;

- (c) the nominal amount of the Dematerialised Covered Bonds so held and blocked is stated, distinguishing with regard to each resolution between those in respect of which instructions have been given as aforesaid that the votes attributable thereto should be cast in favour of the resolution and those in respect of which instructions have been so given that the votes attributable thereto should be cast against the resolution; and
- (d) one or more persons named in such document (each hereinafter called a proxy) is or are authorised and instructed by such Recognised Accountholder or Securities Settlement System to cast the votes attributable to the Dematerialised Covered Bonds so listed in accordance with the instructions referred to in paragraph (ii) above as set out in such document.

Conditions means the Terms and Conditions of the Covered Bonds of the relevant Series or Tranche issued by the Issuer.

Extraordinary Resolution means a resolution passed at a meeting duly convened and held in accordance with these Meeting Rules with respect to the matters set out in Clause 6.1.

Ordinary Resolution means any resolution passed at a meeting duly convened and held in accordance with these Meeting Rules with respect to the matters set out in Clause 6.2 by a simple majority of at least 50% of the aggregate Principal Amount Outstanding of the Series of Covered Bonds for which votes have been cast plus one vote.

Programme Common Terms means Clauses 3 up to and including 12 of the Programme Common Terms Agreement, as may be amended from time to time in accordance with the provisions of the Programme Common Terms Agreement and the Meeting Rules.

Programme Resolution means any resolution passed at a meeting duly convened and held in accordance with these Meeting Rules with respect to the matters set out in Clause 6.3.

Recognised Accountholder means, in relation to one or more Dematerialised Covered Bonds, the recognised accountholder (*erkende rekeninghouder/teneur de compte agréé*) within the meaning of Article 468 of the Belgian Company Code with which a Covered Bondholder holds such Dematerialised Covered Bonds on a securities account.

Resolution means an Ordinary Resolution, an Extraordinary Resolution or a Programme Resolution.

Series Reserved Matters means the matters referred to under Clause 6.1(f) to 6.1(i).

Voting Certificate shall mean a certificate in Dutch or French (with a translation in English) issued by the Recognised Accountholder or the Securities Settlement System and dated in which it is stated:

- (a) that on the date thereof Dematerialised Covered Bonds (not being Dematerialised Covered Bonds in respect of which a Block Voting Instruction has been issued and is outstanding in respect of the meeting specified in such Voting Certificate and any such adjourned meeting) of a specified Principal Amount Outstanding were (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to its order or under its control and blocked by it and that no such Dematerialised Covered Bonds will cease to be so held and blocked until the first to occur of:
 - (i) the conclusion of the meeting specified in such certification or, if applicable, any adjourned such meeting; and
 - (ii) the surrender of the certificate to the Recognised Accountholder or Securities Settlement System who issued the same; and
- (b) that until the release of the Dematerialised Covered Bonds represented thereby the bearer thereof is entitled to attend and vote at such meeting and any such adjourned meeting in respect of the Dematerialised Covered Bonds represented by such certificate.

Capitalised words used in these Meeting Rules and not otherwise defined herein, shall have the meaning and the construction ascribed to them in the Conditions.

2.2 Interpretation

All references in these Meeting Rules to

Covered Bonds are, unless the context otherwise requires, to the Covered Bonds of the relevant Series;

a **Clause** shall, except where expressly provided to the contrary, be a reference to a Clause of these Meeting Rules; and

a **meeting** are to a meeting of Covered Bondholders of a single Series of Covered Bonds (except in case of a meeting to pass a Programme Resolution, in which case the Covered Bonds of all Series are taken together as a single Series) and include, unless the context otherwise requires, any adjournment.

3. CALLING OF THE GENERAL MEETING

3.1 The meeting of Covered Bondholders may be convened by the Issuer, and/or upon its appointment the Cover Pool Administrator, or the Representative and shall be convened by the Issuer, or upon its appointment the Cover Pool Administrator, as applicable, or the Representative upon the request in writing signed by Covered Bondholders holding not less than one fifth of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of the relevant Series.

3.2 The Issuer or upon its appointment the Cover Pool Administrator or the Representative can convene a single meeting of Covered Bondholders of more than one Series if its opinion the subject matter of the meeting is relevant to the Covered Bondholders of each of those Series, in which case these Meeting Rules shall apply *mutatis mutandis*.

3.3 Every meeting of the Covered Bondholders shall be held at a time and place approved by the Representative.

3.4 At least 15 calendar days' notice (exclusive of the day on which the notice is given and the day on which the general meeting is held) specifying the day, time and place of meeting shall be given to the Covered Bondholders in the manner provided by Condition 19 (*Notices*). Such notice shall include the agenda of the meeting. The agenda shall state the nature of the business to be transacted at the meeting thereby convened and specify the terms of any resolution to be proposed. Such notice shall include a statement to the effect that Dematerialised Covered Bonds must be held with or under the control of and blocked by (a) a Recognised Accountholder (b) as the case may be, the Securities Settlement System for the purpose of obtaining Voting Certificates or appointing proxies until three Business Days before the time fixed for the meeting but not thereafter.

4. ACCESS TO THE GENERAL MEETING

4.1 With respect to Dematerialised Covered Bond, save as expressly provided otherwise herein, no person shall be entitled to attend or vote at any general meeting of the Covered Bondholders unless he produces a Voting Certificate or is a proxy.

4.2 With respect to Registered Covered Bonds, save as expressly provided otherwise herein, no person shall be entitled to attend or vote at any general meeting of the Covered Bondholders unless (a) it appears from the register held in accordance with Article 462 *et seq.* of the Belgian Company Code that the relevant person is registered as a holder of Registered Covered Bonds, or (b) is authorised and instructed, by means of a power of attorney that is duly dated and signed, by the person that is registered as a holder of Registered Covered Bonds to cast the votes attributable to such Covered Bondholder. The Issuer or the Cover Pool Administrator, as applicable, may determine the form of the power of attorney.

4.3 The Issuer, the Cover Pool Administrator, upon its appointment, the Representative and the Dealers (through their respective officers, employees, advisers, agents or other representatives) and their financial and legal advisers as well as the chairman of the meeting of Covered Bondholders shall be entitled to attend and speak at any meeting of the Covered Bondholders.

4.4 Proxies need not to be Covered Bondholders.

5. QUORUM

5.1 The quorum at any meeting the purpose of which is to pass an Ordinary Resolution, an Extraordinary Resolution concerning matters referred to under Clause 6.1(a) to 6.1(e) or a Programme Resolution concerning matters referred to under Clause 6.3(a) to 6.3(d), will be one or more persons holding or representing at least 50% of the aggregate Principal Amount Outstanding of the Covered Bonds of the relevant Series (with the Covered Bonds of all Series taken together as a single Series in case of a Programme Resolution), or, at an adjourned meeting, one or more persons being or representing Covered Bondholders of the relevant Series for the time being outstanding, whatever the Principal Amount Outstanding of the Covered Bonds so held or represented.

5.2 At any meeting the purpose of which is to pass an Extraordinary Resolution concerning Series Reserved Matters, the quorum will be one or more persons holding or representing not less than two thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series or, at any adjourned meeting, one or more persons being or representing not less than one third of the aggregate Principal Amount Outstanding of the Covered Bonds of such Series for the time being outstanding.

5.3 At any meeting the purpose of which is to pass a Programme Resolution concerning matters referred to under Clause 6.3(e) the quorum will be one or more persons holding or representing not less than two thirds of the aggregate Principal Amount Outstanding of the Covered Bonds of all Series taken together as a single Series, including at an adjourned meeting.

5.4 No business (except choosing a chairman) shall be transacted at a meeting unless a quorum is present at the commencement of business. If a quorum is not present within 15 minutes from the time initially fixed for the meeting, it shall, if convened on the request of the Covered Bondholders, be dissolved. In any other case it shall be adjourned until such date, not less than 14 nor more than forty-two (42) calendar days later, and time and place as the chairman may decide.

5.5 Covered Bonds held by the Issuer shall not be taken into account for the calculation of the required quorum.

5.6 For the avoidance of doubt, any modification (regardless of whether such modification is a Series Reserved Matter or not), shall require the consent of the Issuer or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, except that no such consent shall be required in relation to a Programme Resolution referred to under Clauses 6.3(b) to 6.3(e).

6. POWERS OF THE MEETING OF COVERED BONDHOLDERS

6.1 Extraordinary Resolution

A meeting of Covered Bondholders shall, subject to the Conditions and only with the consent of the Issuer and/or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate and without prejudice to any powers conferred on other persons by these Meeting Rules, have power by Extraordinary Resolution:

- (a) to approve any modification, abrogation, variation or compromise in respect of (A) the rights of the Representative, the Issuer, the Covered Bondholders or any of them, whether such rights arise under the Programme Documents or otherwise, and (B) these Meeting Rules, the Conditions, any Programme Document or any arrangement in respect of the obligations of the Issuer under or in respect of the Covered Bonds, other than a Series Reserved Matter;

- (b) to discharge or exonerate, whether retrospectively or otherwise, the Representative from any liability in relation to any act or omission for which the Representative has or may become liable pursuant or in relation to these Meeting Rules, the Conditions or any Programme Document;
- (c) to give any authority or approval which under these Meeting Rules or the Conditions is required to be given by Extraordinary Resolution;
- (d) to authorise the Representative (subject to it being indemnified and/or secured to its satisfaction) or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
- (e) to waive any breach or authorise any proposed breach by the Issuer of its obligations in respect of the Covered Bonds or to waive the occurrence of an Event of Default;
- (f) reduction or cancellation of the amount payable or, where applicable, modification of the method of calculating the amount payable or modification of the date of payment or, where applicable, modification of the method of calculating the date of payment in respect of any principal or interest in respect of the Covered Bonds other than in accordance with the terms thereof;
- (g) alteration of the currency in which payments under the Covered Bonds are to be made;
- (h) alteration of the quorum or majority required to pass an Extraordinary Resolution; and
- (i) the sanctioning of any such scheme or proposal for the exchange or sale of the Covered Bonds for or the conversion of the Covered Bonds into, or the cancellation of the Covered Bonds in consideration of, shares, stock, covered bonds, bonds, debentures, debenture stock and/or other obligations and/or securities of the Issuer or any other company formed or to be formed, or for or into or in consideration of cash, or partly for or into or in consideration of such shares, stock, bonds, covered bonds, debentures, debenture stock and/or other obligations.

6.2 Ordinary Resolution

A meeting shall, subject to the Conditions and only with the consent of the Issuer or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power to decide by Ordinary Resolution on any business which is not listed under Clause 6.1 (Extraordinary Resolution) or under Clause 6.3 (*Programme Resolution*).

6.3 Programme Resolution

A meeting shall, subject to the Conditions, and without prejudice to any powers conferred on other persons by these Meeting Rules, have power by Programme Resolution:

- (a) with the consent of the Issuer and/or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, to amend the Programme Common Terms;
- (b) to direct the Representative to serve a Notice of Default on the Issuer pursuant to Condition 8.1;
- (c) to appoint, remove or replace (i) the Representative or (ii) the managing director of the Representative in accordance with Clause 6 of Part 2 of the Meeting Rules;
- (d) to consider the decision or proposal of the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 64/16, 6° of the Credit Institutions Supervision Law; and

- (e) to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 64/16, 7° of the Credit Institutions Supervision Law.

7. MANAGEMENT OF THE GENERAL MEETINGS

- 7.1 The Issuer may appoint a chairman (who may, but need not be, a Covered Bondholder). Failing such choice the Representative may appoint a chairman in writing, but if no such appointment is made or if the person appointed is not present within 15 minutes after the time fixed for the meeting of the Covered Bondholders, the meeting shall be chaired by the person elected by the majority of the voters present, failing which, the Representative shall appoint a chairman. The chairman of an adjourned meeting need not to be the same person as was chairman at the original meeting.
- 7.2 The chairman may with the consent of (and shall if directed by) the meeting, adjourn the same from time to time and from place to place but no business shall be transacted at any adjourned meeting except business which could have been transacted at the meeting from which the adjournment took place.
- 7.3 Notice of any adjourned general meeting shall be given in the same manner as for an original general meeting, and such notice shall state the quorum required at the adjourned general meeting. Subject as aforesaid, it shall not be necessary to give any other notice of an adjourned meeting.

8. VOTING

- 8.1 Every question submitted to a meeting shall be decided in the first instance by a show of hands, then (subject to Clause 8.2) by a poll.
- 8.2 At any meeting, unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman, the Issuer or the Cover Pool Administrator, as applicable, one or more persons holding Voting Certificates in respect of the Dematerialised Covered Bonds or proxies holding or representing in the aggregate not less than 2% of the relevant Series of the aggregate Principal Amount Outstanding of the Covered Bonds, a declaration by the chairman that a resolution has passed or not passed, shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.
- 8.3 If at any meeting a poll is so demanded, it shall be taken in such manner and (subject as hereinafter provided) either at once or after such an adjournment as the chairman directs. The result of such poll shall be deemed to be the resolution of the meeting at which the poll was demanded as at the date of the taking of the poll. The demand for a poll shall not prevent the continuance of the meeting for the transaction of any business other than the question on which the poll has been demanded.
- 8.4 Any poll demanded at any meeting on the election of a chairman or on any question of adjournment shall be taken at the meeting without adjournment.
- 8.5 Any vote given in accordance with the terms of a Block Voting Instruction shall be valid notwithstanding the previous revocation or amendment of the Block Voting Instruction or of any Covered Bondholder's instructions pursuant to which it was executed, provided that no confirmation in writing of such revocation or amendment shall have been received from the Securities Settlement System or Recognised Accountholder by the Issuer at its headquarters (Havenlaan 2, 1080 Brussels, Belgium or such other address as notified to the Covered Bondholders in accordance with the Conditions) by the time being 24 hours before the commencement of the meeting or adjourned meeting at which the Block Voting Instruction is intended to be used.
- 8.6 In case Covered Bonds are held by the Issuer, the Issuer shall not have any voting rights with respect to such Covered Bonds.
- 8.7 In case of equality of votes the chairman shall have a casting vote in addition to any other votes which he may have.

- 8.8 An Extraordinary Resolution shall be validly passed by a voting majority of at least two thirds of the aggregate Series Principal Amount Outstanding of the Series of Covered Bonds for which votes have been cast. An Ordinary Resolution shall be validly passed by a simple majority of at least 50% of the aggregate Series Principal Amount Outstanding of the Series of Covered Bonds for which votes have been cast plus one vote. A Programme Resolution shall be validly passed by a simple majority of at least 50% of the aggregate Series Principal Amount Outstanding of the Covered Bonds of all Series for which votes have been cast plus one vote.
- 8.9 The formalities and procedures to validly cast a vote at a meeting in respect of Registered Covered Bonds shall be such formalities and procedures as described by the Representative.

9. VOTING CERTIFICATES AND BLOCK VOTING INSTRUCTIONS REGARDING DEMATERIALISED COVERED BONDS

- 9.1 Voting Certificates and Block Voting Instructions will only be issued in respect of Dematerialised Covered Bonds (to the satisfaction of such Recognised Accountholder or Securities Settlement System) held to the order or under the control and blocked by a Recognised Accountholder or Securities Settlement System not less than three 3 Business Days before the time for which the meeting or the poll to which the same relate has been convened or called and shall be valid for so long as the relevant Dematerialised Covered Bonds continue to be so held and blocked and during the validity thereof the holder of any such Voting Certificate or (as the case may be) the proxies named in any such Block Voting Instruction shall, for all purposes in connection with the relevant meeting of the Covered Bondholders, be deemed to be the holder of the Dematerialised Covered Bonds to which such Voting Certificate or Block Voting Instruction relates and the Recognised Accountholder or Securities Settlement System with which such Dematerialised Covered Bonds have been deposited or to whose order or under whose control they are held or the person holding them blocked as aforesaid shall be deemed for such purpose not to be the holder of those Dematerialised Covered Bonds.
- 9.2 Each Voting Certificate and each Block Voting Instruction shall be deposited at the registered office of the Issuer not less than three Business Days before the time appointed for holding the meeting or adjourned meeting at which the holder of the Voting Certificate or the proxies named in the Block Voting Instruction propose to vote and in default of such deposit the Voting Certificate or Block Voting Instruction shall not be treated as valid unless the chairman of the general meeting decides otherwise before such meeting or adjourned meeting proceeds to business.

10. MINUTES

Minutes of all resolutions and proceedings at every such meeting as aforesaid shall be made and duly entered in books to be from time to time provided for that purpose by the Issuer and signed by the chairman and any such minutes as aforesaid shall be conclusive evidence of the matters therein contained, and until the contrary is proved each such meeting in respect of the proceedings of which minutes have been made and signed as aforesaid shall be deemed to have been duly held and convened and all resolutions passed or proceedings transacted thereat to have been duly passed or transacted. An attendance list will be attached to the minutes. Certified copies or extracts of the minutes shall be signed by two directors of the Issuer or the Cover Pool Administrator (as the case may be).

11. BINDING RESOLUTIONS

Any Extraordinary or Ordinary Resolution passed at a meeting of the Covered Bondholders duly convened and held in accordance with these Meeting Rules shall be binding on all the Covered Bondholders of the relevant Series, whether or not they are present at the meeting and whether or not they vote in favour of such resolution.

Any Programme Resolution passed at a meeting of the Covered Bondholders of all Series duly convened and held in accordance with these Meeting Rules shall be binding on all Covered Bondholders of all Series, whether or not they are present at the meeting and whether or not they vote in favour of such resolution.

Save as the Representative may otherwise agree, the Issuer or the Cover Pool Administrator (as the case may be) shall give notice of the passing of a Resolution to the Covered Bondholders in accordance with Condition 19 (*Notices*), within 14 calendar days of the conclusion of the meeting, but failure to do so shall not invalidate the Resolution.

12. WRITTEN RESOLUTIONS

Except in relation to a Programme Resolution to direct the Cover Pool Administrator to proceed with the liquidation of the Special Estate and with the early redemption of the Covered Bonds pursuant to Article 64/16, 7° of the Credit Institutions Supervision Law, a resolution in writing signed by or on behalf of holders of 50% of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding shall take effect as a Programme Resolution.

A resolution in writing signed by or on behalf of holders of two thirds of the Series Principal Amount Outstanding of the relevant Series of Covered Bonds outstanding shall take effect as an Extraordinary Resolution.

A written resolution signed by the holders of 50% of the Series Principal Amount Outstanding of the relevant Series of the Covered Bonds outstanding shall take effect as if it were an Ordinary Resolution.

Such resolutions in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Covered Bondholders.

13. FURTHER REGULATIONS

Subject to all other provisions contained in these Meeting Rules and with the consent of the Issuer or upon the initiation of Winding-up Proceedings against the Issuer, the Cover Pool Administrator on behalf of the Special Estate, the Representative may prescribe such further regulations regarding the holding of meetings of Covered Bondholders and attendance and voting as the Representative may determine in its sole discretion.

PART 2 – REPRESENTATIVE

1. APPOINTMENT

The Representative has been appointed by the Issuer as representative of the Covered Bondholders in accordance with Article 64/19 § 2 of the Credit Institutions Supervision Law upon the terms and conditions set out in the Representative Appointment Agreement and herein.

A resolution to appoint the managing director of the Representative is made by Programme Resolution of the Covered Bondholders, except for the appointment of the first managing director of the Representative which will be Amsterdamsch Trustee's Kantoor B.V.

As long as the Covered Bonds are outstanding, there shall at all times be a representative of the Covered Bondholders in accordance with Article 64/19, §2 of the Credit Institutions Supervision Law, which has the power to exercise the rights conferred on it by these Conditions, the Meeting Rules of Covered Bondholders, the Representative Appointment Agreement and the law in order to protect the interests of the Covered Bondholders.

By reason of holding Covered Bonds, each Covered Bondholder:

- (a) recognises the Representative as its representative and (to the fullest extent permitted by law) agrees to be bound by any agreement entered into from time to time by the Representative in such capacity as if such Covered Bondholder were a signatory thereto; and

- (b) acknowledges and accepts that the Issuer shall not be liable, except in case of fraud, in respect of any loss, liability, claim, expenses or damage suffered or incurred by any of the Covered Bondholders as a result of the performance by the Representative of its duties or the exercise of any of its rights under the Conditions (including the Meeting Rules).

The Issuer shall pay to the Representative a remuneration for its services as Representative as agreed in the Representative Appointment Agreement.

2. POWERS, AUTHORITIES AND DUTIES

- (a) Powers and representation

The Representative, acting in its own name and on behalf of the Covered Bondholders shall have the power:

- (a) to represent the Covered Bondholders as provided for in Article 64/19 of the Credit Institutions Supervision Law;
- (b) to exercise all other powers and rights and perform all duties given to the Representative under the Conditions, including the Meeting Rules of Covered Bondholders, the Programme Documents and the Covered Bonds Legislation;
- (c) upon service of a Notice of Default, to proceed against the Issuer to enforce the performance of the Programme Documents and the Conditions on behalf of the Covered Bondholders and the Other Cover Pool Creditors represented by it;
- (d) to collect all proceeds in the course of enforcing the rights of the Covered Bondholders and the Other Cover Pool Creditors represented by it;
- (e) to apply or to direct the application of the proceeds of enforcement in accordance with the Conditions; and
- (f) generally, to do all things necessary in connection with the performance of such powers and duties.

The Representative may also be appointed to represent Other Cover Pool Creditors provided that such Other Cover Pool Creditors agree with such representation. In relation to any duties, obligations and responsibilities of the Representative to these Other Cover Pool Creditors in its capacity as agent of these Other Cover Pool Creditors, the Representative and these Other Cover Pool Creditors will agree and the Issuer will concur, that the Representative shall discharge these duties, obligations and responsibilities by performing and observing its duties, obligations and responsibilities as representative of the Covered Bondholders in accordance with the provisions of the Representative Appointment Agreement, the Programme Documents and the Conditions.

The Representative may act in court and represent the Covered Bondholders in any bankruptcy or similar insolvency proceedings, without having to reveal the identity of the Covered Bondholders it represents.

- (b) Delegation

The Representative may delegate the performance of any of the foregoing powers to any persons (including any legal entity) whom it may designate. Notwithstanding any sub-contracting or delegation of the performance of its obligations hereunder or under the Representative Appointment Agreement, the Representative shall not thereby be released or discharged from any liability hereunder and shall remain responsible for the performance of the obligations of the Representative and shall be jointly and severally liable for the performance or non-performance or the manner of performance of any sub-contractor, agent or delegate and such sub-contracting or delegation shall not affect the Representative's obligations hereunder or under the Representative Appointment Agreement.

(c) Meetings and resolutions of the Covered Bondholders

Unless the relevant Resolution provides to the contrary, the Representative is responsible for implementing all Resolutions of the Covered Bondholders. The Representative has the right to convene and attend meetings of Covered Bondholders to propose any course of action which it considers from time to time necessary or desirable provided that it shall convene a meeting (i) upon the request in writing of Covered Bondholders holding not less than one fifth of the aggregate Series Principal Amount Outstanding of the relevant Series of the Covered Bonds or (ii) in the case of a proposed liquidation of the Special Estate in accordance with Article 64/16, 6° or 7° of the Credit Institutions Supervision Law.

(d) Consents given by the Representative

Any consent or approval given by the Representative in accordance with these Meeting Rules may be given on such terms as the Representative deems appropriate and, notwithstanding anything to the contrary contained in these Meeting Rules, such consent or approval may be given retrospectively.

The Representative may give any consent or approval, exercise any power, authority or discretion or take any similar action if it is satisfied that the interests of the Covered Bondholders will not be materially prejudiced thereby.

(e) Discretions

Save as expressly otherwise provided herein, the Representative shall have absolute discretion as to the exercise or non-exercise of any right, power and discretion vested in the Representative by these Meeting Rules or by operation of law.

(f) Instructions

In connection with matters in respect of which the Representative is entitled to exercise its discretion hereunder (including but not limited to forming any opinion in connection with the exercise or non-exercise of any discretion) the Representative has the right (but not the obligation) to convene a meeting of Covered Bondholders in order to obtain the Covered Bondholders' instructions as to how it should act. Prior to undertaking any action, the Representative shall be entitled to request that the Covered Bondholders indemnify it, prefund it and/or provide it with security to its satisfaction.

3. AMENDMENTS

The Representative may upon the request of the Issuer on behalf of the Covered Bondholders and without the consent or sanction of any of the Covered Bondholders of any Series or the Other Cover Pool Creditors it represents at any time and from time to time, concur with the Issuer or any other person in making:

- (a) any modification (other than in respect of a Series Reserved Matter) of the terms and conditions applying to the Covered Bonds of one or more Series (including the Conditions and including the Programme Common Terms) or any Programme Document provided that in the sole opinion of the Representative such modification is not materially prejudicial to the interests of the Covered Bondholders of any such Series; or
- (b) any modification of the terms and conditions applying to Covered Bonds of any one or more Series (including the Conditions and including the Programme Common Terms) or any Programme Document which is in the sole opinion of the Representative of a formal, minor or technical nature or is to correct a manifest error or to comply with the mandatory provisions of law.

Any such modification shall be binding on the Covered Bondholders.

In no event may such modification be a Series Reserved Matter. The Representative shall not be bound to give notice to Covered Bondholders of any modifications to the Programme Documents agreed pursuant to this Clause. The Issuer or the Cover Pool Administrator, as applicable, shall cause notice of any such modification to be given to the Rating Agencies and the Domiciliary Agent.

If, in the Representative's opinion it is not sufficiently established that the proposed amendment or variation can be approved by it in accordance with this Clause, it will determine in its full discretion whether to submit the proposal to a duly convened meeting of Covered Bondholders or to refuse the proposed amendment or variation.

The Representative shall be bound to concur with the Issuer and any other party in making any of the above-mentioned modifications if it is so directed by a Resolution taken in accordance with the Meeting Rules and if it is indemnified and/or secured and/or pre-funded to its satisfaction against all liabilities to which it may thereby render itself liable or which it may incur by so doing.

Upon the Issuer's request, the Representative shall, without the consent or sanction of any of the Covered Bondholders, concur with the Issuer in making any modifications to the Conditions, to these Meeting Rules or to the Programme Common Terms that the Issuer may decide in its discretion in order to comply with mandatory provisions of law or with any criteria of a Rating Agency which may be published after the signing of the initial agreement(s) for the issuance of and subscription for the Covered Bonds and which the Issuer certifies to the Representative in writing are necessary to avoid a downgrade, withdrawal or suspension of the then current ratings assigned by a Rating Agency to any Series of Covered Bonds, provided that the Representative shall not be obliged to agree to any modification which, in the sole opinion of the Representative, as applicable, would have effect of (i) exposing the Representative, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the protections, of the Representative, as applicable in these Meeting Rules or the Conditions. For avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

Notwithstanding the foregoing, upon the Issuer's request, the Representative shall, without the consent or sanction of any of the Covered Bondholders, concur with the Issuer in making any modifications to the Programme Common Terms set out in Clause 5 (*Issuer Undertaking*), Clause 8 (*Priorities of Payments*) and Clause 9 (*Covered Bonds Provisions*) of the Programme Common Terms Agreement that the Issuer may decide in its own discretion in relation to future issues of Covered Bonds under the Programme provided that (i) such modifications will not affect the then current ratings assigned by a Rating Agency to any Series of Covered Bonds issued under the Programme and (ii) the Issuer certifies to the Representative in writing that these modifications will not affect the rights of Covered Bonds already issued under the Programme, provided that the Representative shall not be obliged to agree to any modification which, in the sole opinion of the Representative, as applicable, would have effect of (i) exposing the Representative, as applicable, to any liability against which it has not been indemnified and/or secured and/or prefunded to its satisfaction or (ii) increasing the obligations or duties, or decreasing the protections, of the Representative, as applicable in the Meeting Rules of Covered Bondholders. For avoidance of doubt, such modification may include, without limitation, modifications which would allow any hedge counterparty and/or liquidity facility provider not to post collateral in circumstances where it previously would have been obliged to do so.

4. WAIVERS

4.1 Waivers

The Representative may in its sole discretion, without the consent of the Covered Bondholders and without prejudice to its rights in respect of any further or other breach, condition, event or act from time to time and at any time, but only if and in so far as in its opinion the interests of the Covered Bondholders will not be materially prejudiced thereby, (a) authorise or waive, on such terms and conditions (if any) as shall seem expedient to it, any proposed or actual breach of any of the covenants

or provisions contained in or arising pursuant to the Representative Appointment Agreement, the Covered Bonds or any of the Programme Documents, or (b) determine that any breach shall not, or shall not be subject to specified conditions, be treated as such. Any such authorisation, waiver or determination pursuant to this Clause shall be binding on the Covered Bondholders and if, but only if, the Representative shall so require, notice thereof shall be given to the Covered Bondholders and the Rating Agencies.

4.2 Reliance

In determining whether or not any power, trust, authority, duty or discretion or any change, event or occurrence under or in relation to the Conditions or any of the Programme Documents will be materially prejudicial to the interests of Covered Bondholders, the Representative shall be able to rely on, and act on any advice or opinion of or any certificate obtained from a valuer, accountant, banker, broker, securities company or other company other than the Rating Agencies whether obtained by itself or the Issuer and it shall not be liable for any loss occasioned by such action, save where such loss is due to its gross negligence, wilful misconduct or fraud.

5. CONFLICTS OF INTEREST

In connection with the exercise of its powers, authorities and discretions, the Representative shall have regard to the overall interests of the Covered Bondholders and of the Other Cover Pool Creditors that have agreed to be represented by the Representative. The Representative shall not be obliged to have regard to any interests arising from circumstances particular to individual Covered Bondholders or such Other Cover Pool Creditors.

The Representative shall, as regards the powers, authorities and discretions vested in it, except where expressly provided otherwise, have regard to the interests of both the Covered Bondholders and the Other Cover Pool Creditors that have agreed to be represented by the Representative but if, in the opinion of the Representative, there is a conflict between the interests the Covered Bondholders and those Other Cover Pool Creditors, the Representative will have regard solely to the interest of the Covered Bondholders.

6. REPLACEMENT OF THE REPRESENTATIVE OR OF THE MANAGING DIRECTOR OF THE REPRESENTATIVE

6.1 Replacement of the Representative

The Covered Bondholders shall be entitled to terminate the appointment of the Representative by means of a Programme Resolution, provided that in the same resolution a substitute Representative is appointed.

Such substitute Representative must meet all legal requirements to act as Representative and accept to be bound by the terms of the Conditions and the Programme Documents in the same way as its predecessor.

Neither the managing director of the Representative nor the Representative so removed shall be responsible for any costs or expenses arising from any such removal.

Upon such appointment being made all rights and powers granted to the company then acting as Representative shall terminate and shall automatically be vested in the substitute Representative so selected. All references to the Representative in the Programme Documents shall where and when appropriate be read as references to the substitute Representative as selected and upon vesting of rights and powers pursuant this Clause.

Such termination shall also terminate the appointment and power of attorney by the Other Cover Pool Creditors.

The Representative shall not be discharged from its responsibilities under the Representative Appointment Agreement until a suitable substitute Representative is appointed.

6.2 Replacement and resignation of the managing director of the Representative

- (a) The Covered Bondholders shall be entitled to terminate the appointment of the managing director of the Representative by means of a Programme Resolution, provided that in the same resolution a substitute managing director of the Representative is appointed;

Such substitute managing director of the Representative must meet all legal requirements to act as managing director of the Representative and accept to be bound by the terms of the Conditions and the Programme Documents in the same way as its predecessor; and

Neither the managing director of the Representative nor the Representative so removed shall be responsible for any costs or expenses arising from any such removal.

- (a) Pursuant to the Representative's articles of association, its managing director ceases to hold office in the following cases:
- (i) upon voluntary resignation, provided that a successor managing director is appointed;
 - (ii) in the case of a legal entity, upon the ceasing to exist as legal entity, or, in the case of an individual, upon its death;
 - (iii) upon the managing director being declared bankrupt, applying for a suspension of payments or petitioning for application of the debt restructuring provision referred to in the Dutch bankruptcy act in respect of the managing director, provided that a successor managing director is appointed;
 - (iv) upon removal from office by the court in cases provided for by the laws of the Netherlands;
 - (v) upon removal from office by the board of the Representative, provided that a successor managing director is appointed ; and
 - (vi) upon removal from office by a Programme Resolution of the Covered Bondholders in accordance with Clause 6.2.

If the managing director has ceased to hold office without a successor managing director having been appointed by the board of the Representative, a successor managing director may be appointed by the Covered Bondholders by means of a Programme Resolution.

Unless the managing director is removed or resigns in accordance with this Clause, it shall remain in office until the date on which all Series of Covered Bonds have been cancelled or redeemed and on which all claims of the Other Cover Pool Creditors (to the extent represented by the Representative) against the Issuer and the Special Estate have been settled.

6.3 Representation of Other Cover Pool Creditors

Any resolution to appoint or to remove the Representative and any appointment, removal or resignation of its managing director shall also be binding upon the Other Cover Pool Creditors that have chosen to be represented by the Representative. The Other Cover Pool Creditors (to the extent represented by the Representative) must be notified of the replacement or resignation of the Representative and of the managing director of the Representative.

7. ACCOUNTABILITY, INDEMNIFICATION AND EXONERATION OF THE REPRESENTATIVE

If so requested in advance by the Issuer or the Cover Pool Administrator, as applicable, the Representative shall report to the meeting of Covered Bondholders on the performance of its duties

under the Representative Appointment Agreement and the Programme Documents provided such request is notified by registered mail no later than 10 Business Days prior to the relevant meeting of Covered Bondholders. The Issuer or the Cover Pool Administrator, as applicable, shall require such report if so requested by those Covered Bondholders who have requested that such meeting be convened.

The Representative Appointment Agreement contains provisions governing the responsibility (and relief from responsibility) of the Representative and providing for its indemnification in certain circumstances, including provisions relieving the Representative from taking enforcement proceedings unless indemnified to its satisfaction.

The Representative shall not be liable to the Issuer or any of the Covered Bondholders or the Other Cover Pool Creditors represented by it in respect of any loss or damage which arises out of the exercise, or the attempted exercise of, or the failure to exercise any of its powers or any loss resulting there from, except that the Representative shall be liable for such loss or damage that is caused by its gross negligence, wilful misconduct or fraud.

The Representative shall not be responsible for any loss, expense or liability which may be suffered as a result of any assets comprised in the Cover Assets, or any deeds or documents of title thereto, being uninsured or inadequately insured or being held by or to the order of the Issuer or any agent or related company of the Issuer or by clearing organisations or their operators or by intermediaries such as banks, brokers or other similar persons.

The Representative shall have no liability for any breach of or default under its obligations under the Representative Appointment Agreement if and to the extent that such breach is caused by any failure on the part of the Issuer, any of the Other Cover Pool Creditors (other than the Representative) to duly perform any of their material obligations under any of the Programme Documents. In the event that the Representative is rendered unable to duly perform its obligations under the Representative Appointment Agreement by any circumstances beyond its control (*overmacht/force majeure*), the Representative shall not be liable for any failure to carry out its obligations under the Representative Appointment Agreement which are thus affected by the event in question and, for so long as such circumstances continue, its obligations under the Representative Appointment Agreement which are thus affected will be suspended without liability for the Representative.

The Representative shall not be responsible for monitoring the compliance by any of the other parties (including the Issuer and the Cover Pool Monitor) with their obligations under the Programme Documents. The Representative may, until it has actual knowledge or express notice to the contrary, assume the Issuer and the Cover Pool Monitor are observing and performing all their obligations under any of the Programme Documents and in any notices or acknowledgements delivered in connection with any such Programme Documents.

The Representative shall not be responsible for ensuring that the Issuer complies with the obligations applicable to it under the Covered Bonds Legislation or that any asset is duly registered in the Register of Cover Assets and the Register of Cover Assets is duly maintained.

Except if such meeting is convened by the Representative, but only to the extent that any defect has arisen directly from the Representative's gross negligence, wilful misconduct or fraud, the Representative shall not be liable for acting upon any resolution purporting to have been passed at any meeting of the Covered Bondholders in respect whereof minutes have been made and signed even though subsequent to its acting it may be found that there was some defect in the constitution of the meeting or passing of the resolution or that for any reason the resolution was not valid or binding upon such Covered Bondholders.

If the Representative has acted upon such resolution, each Covered Bondholder shall forthwith on demand indemnify the Representative for its pro rata share in any liability, loss or expense incurred or expected to be incurred by the Representative in any way relating to or arising out of its acting as Representative in respect of that resolution, except to the extent that the liability or loss arises directly

from the Representative's gross negligence, wilful misconduct or fraud. The liability shall be divided between the Covered Bondholders pro rata according to the respective Principal Amount Outstanding of the Covered Bonds held by each of them respectively.

8. INSTRUCTIONS AND INDEMNITY

The Representative shall not be bound to take any action under its powers or duties unless:

- (a) it shall have been directed to do so by an Extraordinary Resolution of the Covered Bondholders or in relation to the service of a Notice of Default pursuant to Condition 8.1 (*Events of Default*) it shall have been requested to do so by a request in writing by the holders of not less than 25% of the aggregate of the Series Principal Amount Outstanding of the Covered Bonds of all Series then outstanding but excluding the Covered Bonds held by the Issuer for the calculation of the percentage or if so directed by a Programme Resolution; and
- (b) it shall in all cases have been indemnified to its satisfaction against all liability, proceedings, claims and demands to which it may be or become liable and all costs, charges and expenses which may be incurred by it in connection therewith, save where these are due to its own gross negligence, wilful misconduct or fraud.

Whenever the interests of the Covered Bondholders are or can be affected in the opinion of the Representative, the Representative may – if indemnified to its satisfaction – take legal action on behalf of the Covered Bondholders and represent the Covered Bondholders in any insolvency proceeding and any other legal proceedings initiated against the Issuer or any other party to a Programme Document.

The Representative can under no circumstances, including the situation wherein Covered Bondholders' instruction or approval cannot be obtained for whatever reason, be required to act without it being remunerated and indemnified or secured to its satisfaction.

The Representative shall be indemnified by the Issuer and held harmless, in respect of any and all liabilities and expenses incurred by it or by anyone appointed by it or to whom any of its functions may be delegated by it in carrying out its functions.

USE OF PROCEEDS

The net proceeds from each issue of Covered Bonds will be applied by the Issuer for its general corporate purposes. If in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

COVER ASSETS

Main category of Cover Asset – Residential Mortgage Loans

The Special Estate may be composed of assets of each of the five categories (residential mortgage loans (including Retail Mortgage Backed Securities (**RMBS**)) (category 1), commercial mortgage loans (including Commercial Mortgage Backed Securities (**CMBS**)) (category 2), public exposures (including Public Asset Backed Securities) (category 3), exposures to credit institutions (category 4) and Hedging Agreements (category 5)) (See *Section 5 Assets to be included in the Special Estate* under *Summary of the Belgian Covered Bonds Legislation*).

Please see the Summary of the Covered Bonds Legislation for a description of the valuation criteria and the Statutory Tests.

The main asset category of the Special Estate will consist of Category 1, i.e. Residential Mortgage Loans (excluding RMBS) where the mortgage receivables are secured by a mortgage on residential real estate located in Belgium.

The value of Cover Assets out of this Category 1 (Residential Mortgage Loans including RMBS) must represent at least 85% of the aggregate Principal Amount Outstanding of all Covered Bonds of all Series outstanding (the **85% Asset Coverage Test**). In exceptional circumstances the NBB may decrease the minimum percentage of 85 % of the 85% Asset Coverage Test.

In addition, the Issuer has undertaken that for so long as the Covered Bonds are outstanding, the Issuer will ensure that the value of the Residential Mortgage Loans registered as Cover Assets in the Register of Cover Assets calculated in accordance with the Covered Bonds Legislation (and all monies derived therefrom from time to time as reimbursement, collection or payment of interest on the Residential Mortgage Loans) will represent at least 105 per cent. of the Series Principal Amount Outstanding of the Covered Bonds of all Series (See Condition 2.6 (*Issuer undertaking*)).

Description of the Residential Mortgage Loans

Interest Rates

The interest rate on each Residential Mortgage Loan has been fixed for an interest period as of the date of the origination of the relevant Residential Mortgage Loan.

The interest period can be equal to the term of the Residential Mortgage Loan, in which case the interest rate is called a fixed interest rate.

If the interest period is not equal to the term of the Residential Mortgage Loan, the interest rate will change at the end of the relevant interest period. The interest period can vary from one to 20 years. In this case, the interest rate is called a variable interest rate. The change to the interest rate is based on the change in an underlying reference index. Changes to the interest rate are subject to a maximum increase and decrease agreed upon origination of the relevant Residential Mortgage Loan. The maximum increase of the interest rate may not exceed the maximum decrease.

Upon origination of the relevant Residential Mortgage Loan, the Issuer may grant certain discounts on the initial (fixed or variable) interest rate. Such discounts may be granted depending on, among other things, customer loyalty. The discounts are often granted if the Borrower satisfies and continues to satisfy the conditions for the discount. If the Borrower would no longer satisfy the conditions for the discount, the Issuer may revoke such discount (“conditional” discounts). Beside “conditional” discounts, KBC Bank may grant “commercial” discounts which are granted for commercial reasons and which can under no circumstance be withdrawn from the customer.

Types of Residential Mortgage Loans

The Residential Mortgage Loans can be categorised according to their repayment schedules. The two most commonly used are:

- (a) Linear Residential Mortgage Loans; and
- (b) Annuity Residential Mortgage Loans.

The types of Residential Mortgage Loans set forth under (a) and (b) are fully amortising, which means that the repayment schedules are designed so that the amount of the outstanding balance of the Residential Mortgage Loans is zero after the last scheduled periodical payment has been made.

A Residential Mortgage Loan with *linear* repayment is a Residential Mortgage Loan under which the Borrower repays a fixed amount of principal per period, so that the debt gradually decreases. Due to the decreasing outstanding balance, the interest payment decreases proportionally. As a result, the gross mortgage costs (interest plus repayment of principal) decreases over time.

With an Annuity Residential Mortgage Loan, the periodical gross payments under the Residential Mortgage Loans remain the same, whereby the interest payments decrease and the repayments of principal increase.

Residential Mortgage Loans with other repayment schedules such as Residential Mortgage Loans with progressive repayments and with monthly interest-only instalments are also possible.

Loan Security

The Residential Mortgage Loans are secured by:

- (a) a first ranking mortgage, or
- (b) a lower ranking mortgage provided that the Issuer also has the benefit of all higher ranking mortgages on the same real estate and, as the case may be a mandate to create mortgages.

Mortgage

A mortgage creates a priority right to payment out of the mortgaged assets, subject to mandatory statutory priorities (including beneficiaries of prior ranking mortgages).

The Residential Mortgage Loans are secured by a mortgage which is used to also secure all other amounts which the Borrower owes or in the future may owe to the Issuer, a so-called all sums mortgage (*alle sommen hypotheek/hypothèque pour toute somme*) (**All Sums Mortgage**). Part of the Residential Mortgage Loans relate to facilities which have the form of a revolving facility (*kredietopening/ouverture de crédit*). The mortgage that is granted as security for this type of loans is used to secure all advances (*voorschotten/avances*) made available under such revolving facility.

Pursuant to Article 51bis of the Law of 4 August 1992 on mortgage credit (the **Mortgage Credit Law**) a receivable secured by an All Sums Mortgage which is registered in the Register of Cover Assets shall rank in priority to any receivable which arises after the date of the registration and which is also secured by the same All Sums Mortgage. Whereas the receivable registered in the Register of Cover Assets ranks in priority to further loans, it will have equal ranking with loans or debts which existed at the time of the registration and which were secured by the same All Sums Mortgage, unless stipulated otherwise in the issue conditions.

Pursuant to Article 51 § 2 of the Mortgage Credit Law, advances granted under a revolving facility secured by a mortgage can be registered in the Register of Cover Assets. The advance will benefit from the privileges and mortgages securing the revolving facility. The advance registered in the Register of Cover Assets will rank in priority to further advances that are granted after the date of registration. However, an advance registered in the Register of Cover Assets will have equal ranking with other advances which existed at the time of the registration transfer and which were secured by the same Mortgage, unless stipulated otherwise in the issue conditions.

Condition 12.3 of the Conditions provides that if a security interest (including any mortgage and mortgage mandate) secures both Cover Assets and assets in the General Estate, all sums received out of the enforcement of the security interest will be applied in priority to satisfy the obligations in relation to the Cover Assets. Any proceeds of enforcement of such security interest can only be applied in satisfaction of the obligations of the relevant assets in the General Estate once all sums owed to the Special Estate in respect of the relevant Cover Assets are irrevocably repaid in full

Mortgage Mandate

A mortgage mandate is often used in addition to a mortgage to limit registration duties payable by the Borrower.

A mortgage mandate does not create an actual security interest and does not therefore create an actual priority right of payment out of the proceeds of a sale of the mortgaged assets. The mortgage mandate is an irrevocable mandate granted by a Borrower or a third party collateral provider to certain attorneys to create a mortgage as security for the Residential Mortgage Loan and all other amounts which the Borrower owes or in the future may owe to the Issuer. Only after creation of the mortgage, the beneficiary of the mortgage will have a priority right to payment out of the proceeds of a sale of the mortgaged assets. See further *Risk Factors –Mortgage Mandates*.

The mortgage loans may, as the case may be, be further secured by:

- (a) life insurance policies and hazard insurance policies;
- (b) an assignment of salary by the Borrower; and/or
- (c) any pledge, set-off or unicity of account rights of the Issuer pursuant to its applicable general banking terms and conditions.

Pursuant to Article 64/8, § 2, 3° of the Credit Institutions Supervision Law all security interests and sureties, guarantees or privileges under whichever form that have been granted in relation to Cover Assets as well as rights under insurance policies and other contracts in relation to the Cover Assets or the management of the Special Estate are automatically part of the Special Estate.

Origination process of the assets

1. UNDERWRITING AND APPROVAL PROCESS

1.1 Application process

All loan applications are processed through a local branch of KBC Bank and the majority of these applications is approved at this level (91% approval rate in 2011).

A loan application must be registered in an electronic registration system “KPD” (*Kredieten Particuliere Doeleinden*, translated Retail purpose loans). The applicant must provide, with documentary evidence where necessary, information on the project, personal data (income, family situation, etc) as well as information on assets and liabilities. A financing scheme and the terms of the mortgage are agreed between the borrower and KBC Bank. The borrower certifies the accuracy of the information by signing the application form. Credit applications are completed on the level of the local KBC Bank office.

1.2 Debt-to-income ratio (DTI)

The total debt-to-income ratio is calculated by dividing the total monthly debt obligations by the monthly net income. The monthly net income is defined as the income remaining after the deductions for social security and income taxes. The total debt obligations are defined as all financial obligations of a borrower at the time the credit application is submitted to KBC Bank.

The KBC Bank guideline is that the minimum household budget (= income after deduction of all loan payments) is at least 610 euro in case of 1 borrower or 910 euro in case of two or more borrowers. In case of children 270 euro has to be added to these amounts.

1.3 Loan-to-value ratio (LTV)

According to internal guidelines of KBC Bank, the maximum LTV should not exceed 120%. In cases where the LTV is higher than 100% the basic interest rate can be increased by 1%.

LTV = Loan to value: the value is the selling value of the real estate on which a mortgage or power of attorney to mortgage is taken for the considered loan. Customers can apply over time for different loans, each application can consist of different agreements which leads to different calculations.

LTV is not used as such in the application processes of KBC Bank, however other policies lead to similar limitations. Among them specific policies on minimum down payment (depending on eg purpose of the loan, risk level and amount) and on “lending rate” a LTV variant are applied (see definition below). The mortgage loan can be approved in the branches to a maximum lending rate of 110% of the value (excluding registration and notary costs) of the property over which the mortgage is granted. For reliable clients a mortgage loan can be approved to maximum lending rate 120% of the value of the property. However, this situation is rather exceptional and as soon as the percentage exceeds 100%, the borrower must pay a higher interest rate.

The **lending rate** is defined as a ratio between:

- (a) the loan amount, diminished by the non mortgage collateral value (securities pledged basket); and
- (b) the “free” selling value of the real estate, on which a mortgage or power of attorney to mortgage exists linked to the loan and which is usable in case of delinquency.

“free” = the value is diminished with the outstanding non covered amounts of other loans linked to the same real estate.

The lending rate does not take into account the amount of the mortgage or power of attorney to mortgage nor other loans which are not linked to the real estate. The lending rate is used in the application process together with other elements as eg the total collateral amounts, the totality of all loans to that customer, the application score.

The lending rate is calculated by the complex formula:

$$\frac{\text{loan amount-}}{\text{(selling value - mortgage amounts in preceding rank) - } y} \frac{\text{collateral value}}{\text{(outstanding amount- < other collateral value)}} * 100$$

> 0
 y

Where:

- X = real estate linked to the new loan application by the mortgage(s) or power(s) of attorney to mortgage;
- Y = other KBC Bank-loans having also a mortgage or power of attorney on the real estate considered in X; and
- Z = all collaterals (as well mortgages, powers of attorney as pledged baskets) linked to the loans considered in Y.

1.4 Property valuation

KBC Bank requires no official appraisal for every property to be financed when the credit amount is less than EUR 125,000.

When the loan amount equals or exceeds EUR 125,000 an external appraisal can be requested.

1.5 Credit History

Before taking a decision, the KPD-registration system automatically checks the borrower in the internal Risk and Damage database (*Risico en Schade Bestand* or RSB) and the external database Retail Loan database (*Centrale voor Kredieten aan Particulieren* or CKP). This external database contains negative and positive external information. The information from the CKP database is compared with the information the borrower has provided to KBC Bank. When negative information is available in CKP, the loan will automatically be declined. If a loan is declined on the basis of this negative information, the applicant can file a new application with the Head Office directly, and can, exceptionally, still be granted a loan, if there is a proof that the financial problems are solved.

1.6 Income check

The borrower's income is verified from an original pay stub or bank statement. The income must be registered in the KPD-registration system. A proof of the income (pay stub or bank statement) has to be kept in the credit application file at the head office. The head office checks if she has received these documents in the file.

1.7 Approval process

The collected information that is registered in the KPD-registration system is used for a first risk assessment. On the basis of the risk assessment and the analysis of the guarantees, the KPD-registration system automatically delivers a "decision advice". Delegation authority restrictions are based on this advice. The decision advice provides the loan manager with an indication whether he can decide or not, or what must be changed in the loan application (eg guarantees, involvement of another employee of KBC Bank with more decision delegation). In some cases (9% in 2011) the decision must be taken at the head offices of KBC Bank.

2. PROPERTY VALUATION

KBC Bank requires an in-house appraisal for every property to be financed. The respective staff members at the local KBC Bank branches use a desk-top approach for the valuation.

For the **purchase of an existing home or building plot**, the sale price of that property (as registered in the sales agreement) is used as a proxy for the market value of the home at time of purchase.

For **new properties**, the plans and the cost estimate made by the architect (= specifications) will be reviewed by KBC Bank. The property is valued as follows:

100% of the value of the building plot (valuation as described above)

+90% of the specifications (inclusive of VAT).

For **renovating an existing property**, the plans and the cost estimate by the architect (= specifications) will be reviewed by KBC Bank. The property is valued as follows:

100% of the estimated value of the existing property

+75% of the specifications (inclusive of VAT).

3. DISBURSEMENT OF FUNDS

For the purchase of a home, full disbursement (by bank cheque or by transfer) will be made following the execution of the notarial deed.

If the loan is used for building or renovating a home, funds can only be drawn by presenting bills related to the purpose of the loan granted. The funds are transferred to the borrower's account and the

borrower has to pay the supplier/furnisher. The funds must be drawn within 12 months after date of the (notarial) deed. The period of disbursement can be prolonged once by maximum 12 months. The borrower must only pay interest on the portion of the loan, which has been drawn. From the beginning of the sixth month after the (notarial) deed has been executed, the borrower must pay a commitment fee on the amount of the loan which has not been drawn yet.

4. COLLECTION OF PAYMENTS

Payments of interest and principal are made by direct debit from a KBC Bank bank account or savings account on a monthly basis.

5. SALES CHANNELS

Mortgage loans are originated entirely through KBC Bank's office network. No agents or brokers are used.

6. CHARACTERISTICS

Credit facility agreement ("kredietopening")

KBC Bank enters into a "credit facility agreement" with the borrower, under which the borrower has the right to draw down one or more advances up to the agreed maximum amount of the facility. Each "advance" is a loan with its own characteristics. The mortgage secures all the advances made pursuant the credit facility.

There are two kinds of "credit facility agreements" in KBC Bank's portfolio:

- (a) From 1 September 1998 to 5 December 2004: a credit facility agreement under which the borrower has the right to draw down from time to time one or more advances up to the agreed maximum amount of the facility. Each "advance" is a loan with its own characteristics. The mortgage secures all the advances made pursuant the credit facility. The borrower can ask for one or more advances, up to the agreed maximum amount of the facility (the bank has to agree on every advance). The term of the credit facility agreement is unlimited.
- (b) As from 6 December 2004: a credit facility agreement under which the borrower has the right to draw down one or more advances within a limited period (30 years) after granting the credit facility agreement. Afterwards no more advances can be drawn down. The term of the credit facility agreement is limited to the term of the advance with the longest duration.

Characteristics of the Advances

Characteristics

Repayment schemes

Possibilities

equal instalments ("annuity" method)
 equal principal repayments ("linear" method)
 progressive repayments
 monthly interest-only instalments (not frequent)

Formulas of "variability"

Annually (1-1-1)
 every three years (3-3-3)
 every five years (5-5-5)
 every five years after an initial period of ten years (10-5-5)
 every five years after an initial period of 20 years (20-5-5)
 fixed rates (from 3 to 30 years)

Characteristics

Caps and Floors

Formula of revision

Amount (size of the advance)

Maturity

KBC Bank also provides bridge loans to finance the period between a purchase of a new home and the sale of the previous home. The bridge loans have a maturity of maximum one year. Principal and interests are paid at the same time when the funds of the new mortgage loan are available. A prepayment penalty (= reinvestment fee) is not paid by the borrower in case of early repayment on a bridge loan.

Possibilities

cap and floor for variable rate loans:.

+5 %/-5% p.a. (only in portfolio)

+2%/- unlimited downward

+0%/- unlimited downward (only in portfolio)

+3%/-3%

For advances under the mortgage law from 1998

whereby:

$$MR_1 = MR_0 (I_1 - I_0)$$

I_0 = monthly based reference index as specified in the original contract

I_1 = monthly based reference index of the month preceding the month of the interest-rate review

The reference indexes are official indexes specified on a monthly basis by the Belgian government and published in the Belgian Official Gazette

MR_1 = new monthly interest rate

MR_0 = monthly interest rate originally agreed for the first period.

For advances under the mortgage law from 1992

$$MR_1 = \frac{MR_0 \times I_1}{I_0}$$

whereby:

I_0 = yearly based reference index as specified in the original contract

I_1 = yearly based reference index of the second month preceding the month of the interest-rate review

The reference indexes are official indexes specified on a monthly basis by the Belgian government and published in the Belgian Official Gazette

MR_1 = new monthly interest rate

MR_0 = monthly interest rate originally agreed for the first period.

minimum EUR 2.500

maximum depending on purpose, guarantees and DTI

max. 30 years

Security and insurance

A right to attach the customer's salary in case of default is granted to KBC Bank at the time of loan origination by all customers. This clause is part of the contract, which the customer signs at the inception of the loan. In the event the customer is married, Belgian law requires that both spouses sign the loan documentation, including the above mentioned clause. In this way, KBC Bank can, if necessary, attach both of the spouses' salaries.

A mortgage is a security that is often used in Belgium, because of the benefit of a tax deduction or tax credit with respect to interest and principal which only exists if a home loan is accompanied by a mortgage. The majority of the residential mortgage loans of KBC Bank are secured by a mortgage.

A reduced portion of the KBC Bank residential mortgage loans are granted without a mortgage. In that case, a "power of attorney" or "mortgage mandate" (in the form of a notarial deed) to create a mortgage is granted by the customer to KBC Bank. This process can be used for very creditworthy customers to reduce the mortgage registration costs. A combination of a mortgage (for a limited amount) and a mortgage mandate is becoming the norm in the current market (interesting for tax reasons).

Since 1995, a "negative pledge agreement" is included in the home loan documentation of KBC Bank. This clause generally stipulates that the customer (a) promises not to grant another mortgage on the same property to another bank, and (b) promises not to sell the property.

KBC Bank does not require credit insurance in connection with its mortgages. However, most borrowers understand the advantage of maintaining a life insurance policy. Neither the life insurance nor the hazard insurance policy is annexed to the notary deed.

Discounts

Most financial institutions apply a basic rate for their mortgage loans. Loyal customers can be granted a more favourable arrangement.

A distinction is made between "conditional" discounts and "commercial" discounts.

A "conditional" discount is a discount, that depends on one or more conditions (i.e. taking out a life or hazard insurance policy). As long as the conditions are fulfilled, the conditional discount is granted. From the moment that one of the conditions is no longer satisfied, the discount no longer applies.

A "commercial" discount is a discount that is granted to the customer for commercial reasons, ie to convince him to take the loan with KBC Bank. Once a "commercial" discount is granted, it can under no circumstances be withdrawn from the customer.

Until 5 December 2006, KBC Bank has only applied commercial discounts. As from 5 December 2006, a combination of conditional and commercial discounts is possible.

Prepayments

A borrower may repay his mortgage loan in part or in full at any time (see article 26 Mortgage Credit Law).

In case of a partial repayment, the borrower can choose either to shorten the maturity of the mortgage loan (and thus keep the same monthly payments as scheduled) or to reduce the amount of the monthly payments (and thus keep the maturity as scheduled).

The borrower must pay a prepayment penalty (= reinvestment fee) equivalent to three months of interest on the amount of principal prepaid.

Monitoring of the performance of the Cover Assets (delinquencies, LTV)

Servicing

(a) Credit risk monitoring and follow-up: various phases

Credit risk management of delinquent borrowers (i.e. borrowers who are in arrears on their mortgage loan or on any other credit product) can be divided into a number of phases:

- (i) the Monitoring Phase;
- (ii) the Special Mention Phase;
- (iii) the Possible Loss Phase;
- (iv) the Irrecoverable Phase; and
- (v) the Write-off Phase.

(b) Separation of responsibilities between local offices and head office

In the Monitoring Phase, the local office is responsible for the credit risk supervision and is the point of contact for the borrower.

As soon as the credit risk is in the Special Mention Phase, the head office is responsible for supervision. As from that moment, the responsibility of the local office is limited to providing relevant information to the head office.

(c) Start of credit risk monitoring – automatic processes

Credit risk monitoring and follow-up is triggered by risk warning signals. For mortgage loans, these signals arise primarily from the detection of arrears in payment.

Supervision is backed up by automatic processes. The main automatic processes are:

- (i) The monthly review of the credit portfolio: at the end of the month, the entire credit portfolio is scanned. If a borrower is more than five days in arrears with at least one credit product, an electronic file is created and sent to the Monitoring Phase.
- (ii) The daily review of the credit portfolio: Each day, the entire credit portfolio is scanned. If a borrower has a certain number of days overdue on at least one credit product, the file is allocated to the head office and transferred to the Special Follow-up Phase. For mortgage loans, this occurs automatically after the borrower is 45 days in arrears.
- (iii) The dunning procedure: borrowers are sent reminders about their delinquent credit situation. The letters are individualised per credit product. For mortgage loans, 15 days after non-payment of the instalment, a friendly reminder is sent. If the borrower fails to pay the arrears, a notice of default will be sent to the borrower by registered mail after he has been in arrears for 35 days. This notice of default will be repeated every month until the arrears are paid or the credit product becomes due and payable.

(d) The Monitoring Phase

At the beginning of each month, the local office has to screen the customers for whom a new electronic file has been created. The local office can check the status of the followed-up customers in a special IT-application.

Each month, a list of borrowers that are monitored will be sent to the relevant local office. Based on this selection, the local office can take a number of measures:

- (i) contact the borrower personally (by phone);

- (ii) set-off the arrears against credit balances on the borrower's accounts, subject to the certain legal limits;
- (iii) make arrangements with the customer to clear the arrears or change repayment schedule of the mortgage loan;
- (iv) create an additional mortgage by exercising the mortgage mandate, if any;
- (v) encourage the borrower to sell his property voluntarily;
- (vi) encourage the borrower to transfer his credit to another financial institution; and
- (vii) transfer the responsibility of the follow-up to the head office.

The local office records the actions taken in the electronic file of the customer.

If it is not possible to normalise the delinquent credit situation, the borrower's file will be transferred to the next follow-up phase.

(e) The Special Mention Phase

The borrower's file will be automatically transferred to the Special Mention Phase when he becomes delinquent on at least one credit product for a certain number of days. For mortgage loans, the transfer to the Special Mention Phase occurs after the borrower is 45 days in arrears.

The files of the borrowers can also be transferred to the Special Mention Phase sooner:

- (i) at the request of the local office;
- (ii) if the local office makes arrangements with the borrower to clear the arrears on his mortgage loan; and
- (iii) if serious credit events occurred (eg fraud).

In this phase, the head office will endeavour to have the borrower regularise his delinquent status. The measures that the head office may take are similar to those listed for the monitoring phase. Head office can consult the electronic file in order to know which measure the local office already took.

As from this phase, the local office loses all decision authority. All accounts of the borrower (with or without an overdraft facility) will be automatically blocked in order to avoid additional limit overruns.

(f) The Possible Loss Phase

The borrower will be transferred to the Possible Loss Phase if, at the end of the month, it has been delinquent on at least one credit product for at least 90 days.

This phase is an extension of the Special Mention Phase.

In this phase the head office will try to normalise the borrower's status. If it does not succeed, the credit products on which the borrower is in arrears will be accelerated to the extent contractually and legally possible.

(g) Conciliation proceeding

For mortgage loans, as a rule, legal conciliation proceedings are initiated before the loan is accelerated. The conciliation proceedings will be initiated once the borrower has missed three complete repayment instalments. The conciliation phase can last for three months.

In the conciliation proceeding, the borrower is required to appear before the competent court in order to provide KBC Bank with the possibility to foreclose the mortgaged assets (Court of first instance).

If the court rules that no conciliation is possible, KBC Bank will accelerate the loan without delay. If the court rules in favour of conciliation, the borrower will have a certain period to pay the instalments that are in arrears. If the borrower subsequently fails to comply with the payment arrangements, KBC Bank will be entitled to accelerate the loan immediately.

(h) The Irrecoverable Phase

A borrower goes in the Irrecoverable phase when KBC Bank is required to terminate the credit agreement or when there is no possibility of recovering the debt via the usual procedures.

For mortgage loans, the rule is that the loan is accelerated if the court rules that no conciliation is possible or if the borrower fails to comply with the payment arrangements imposed by the court (see paragraph (g)).

Consequences of the irrecoverable classification are:

- (i) the credit will be transferred from the normal accounting system to default claims accounting;
- (ii) a special debt recovery account will be opened. All future repayments will be transferred to this account; and
- (iii) specific provisions are booked.

The head office has a number of alternatives to recover these mortgage loans. Procedures are conducted as a matter of principle at the lowest expense for both KBC Bank and the borrower:

- (A) payment arrangements may be allowed;
- (B) an application can be submitted to exercise the mortgage mandate, if any, to create a mortgage;
- (C) the borrower can be encouraged to sell his property voluntarily;
- (D) the borrower can be encouraged to transfer his loan to another financial institution;
- (E) notice can be served on the borrower's employer with a view to assign the borrower's salary; and
- (F) the file can be transferred to an attorney to commence the forced sale of the property.

The repayment of these mortgage loans generally occurs through a voluntary or forced sale of the mortgaged property. If the proceeds of the foreclosed property do not cover the outstanding amount of the mortgage loan, payment arrangements are discussed with the borrower.

A property is foreclosed on average after two and three years.

(i) The Write-off Phase

A borrower's file will be transferred to the Write-off phase if there is no longer any possibility of recovering the debt via the usual procedures. The claims outstanding will in this case be written off. For mortgage loans, this is the balance remaining after the mortgaged property has been sold.

KBC Bank must be able to justify the write-off to the tax authorities:

- (i) KBC Bank holds a certificate of uncollectibility (from a bailiff, ...);
- (ii) the payments received are not sufficient to pay accruing interest (= perpetual payment arrangements);
- (iii) the borrower's name has been officially removed from registers of births, deaths and marriages (gone missing);
- (iv) the amount of the claim is not significant enough to justify the expense of active follow-up;

- (v) the claim is forgiven by law (eg under a collective debt settlement or if a bankrupt's debts are excused);
- (vi) the borrower has died and left no heirs;
- (vii) KBC Bank has reached a compromise settlement with the borrower.

In this phase it is still possible to make new payment arrangements on demand of the customer.

(j) Collective debt settlements

The Act of 5 July 1998 on collective debt settlement for private persons is in effect since 1 January 1999. This legislation is designed to enable individuals with excessive and structural debt problems to clear this debt. If a borrower starts such proceedings, this will affect credit risk supervision. All ongoing legal procedures will be suspended immediately. The competent court will in principle allow an out-of-court settlement. If this is not possible, it will impose a court settlement (with a maximum term of five years). If the borrower has a mortgage loan, the court will generally decide that the credit repayments must continue to be made on the relevant due dates to enable the borrower to continue to occupy the home. In this case, the mortgage loan will not be treated as irrecoverable, but will continue to be considered a normal credit.

OVERVIEW OF BELGIAN MORTGAGE MARKET

Economic environment

With 11 million inhabitants and an average of 349 inhabitants per square km, Belgium ranks third in the EU after Malta and The Netherlands in terms of populations density. Population has grown by 750.000 over the past decade and is expected to continue to grow by appr. 80.000 per annum over the coming five years. (Source: *Algemene Directie Statistiek en Economische informatie, FOD Economie*).

The Belgian economy recovered well after the slowdown of 2001-02, and performed strongly in the subsequent years, as economic activity picked up supported by prudent macroeconomic policies and a benign global environment. However, the economic picture changed drastically as the financial crisis struck: for 2009, Belgium's GDP growth was -2.7%, which was still better than the euro area average GDP decline of -4.4% (Source: *www.nbb.be, economic indicators for Belgium*).

Belgium succeeded well in its return to growth in 2010, with GDP growth of +2.1%, and sustaining growth in 2011, at 1.5%, in both years outperforming the euro area average. (Source: *www.nbb.be, economic indicators, economic indicators for Belgium*).

For 2012, The European Commission forecasts a flat 0.0% GDP reading, but again this would be better than the small decline of -0.3% expected for the euro area. For 2013, again an outperformance for Belgium is expected vis-à-vis the euro area with a forecast growth level of 1.2% compared to 1% respectively.

Belgian unemployment rates compare well to the Euro Area averages. Unemployment seems to have peaked at 8.4% in 2010 and has since dropped back to 7.2% in 2011. The forecast unemployment is slightly up for 2012 at 7.6%. This is however still far below the euro area forecast unemployment rate for 2012 of 11.0%. (Source *unemployment data: www.nbb.be, Economic indicators for Belgium*).

Belgium's average inflation rate reflected by the Harmonized Indices of Consumer Prices over 2011 was 3.5% (Source *Algemene Directie Statistiek en Economische informatie, FOD Economie, www.stabel.fgov.be*), above the EU27's 2.1% (Source: Eurostat, HICP database). Having said that, Belgian inflation is expected to retreat this year and next year, reaching 1.8% in 2013, in line with the EU average forecast (Sources: *www.nbb.be, economic indicators for Belgium*).

Belgian mortgage lending market dominated by banks

Following the consolidation wave of 1991, the Belgian banking landscape changed from being predominantly dominated by public credit institutions to a consolidated environment controlled by a handful of major banking groups. The four biggest players, KBC Bank, Belfius, BNP Paribas Fortis and ING control nearly 70% of the mortgage lending market, where other credit and financial institutions (smaller banks, insurance companies, savings banks) and mortgage shops cover the remainder. Mid 2012, KBC Bank held a solid market share of 19% of total outstanding mortgage loans. Since 1999, foreign lending institutions have been authorised to grant mortgage credit in Belgium. However, the entrance of new participants has not intensified the competition, as low margins common among the local institutions appear to have discouraged foreign competitors. (Source: *KBC Bank NV- own estimate*).

Housing market features and outlook

It has often been said that "Belgians are born with a brick in their stomach" and, indeed, there is a lot of truth in this, as an estimated 78% of the Belgians own their houses. (Source: *Eurostat, housing statistics, population by tenure status*)

However, the Belgian housing market accounts for a total value of 163 billion Euro of mortgage debt end 2010 (11), which is 'only' approximately 46% of GDP, which is substantially below the EU 27 average estimated at appr. 52.5%. (Sources: *European Mortgage Federation, Key figures*).

The past decade, the market has been characterised by a steady growth underpinned by an increasing number of single person households, relatively (historically speaking) low interest rates and the role of Brussels as European capital, attracting immigration.

Property prices in Belgium have gone up sharply over the past decade and a half, except in 2009 when they were hit briefly by the financial crisis. The limited supply in a population dense country and the resilient demand have permitted Belgian house prices to have a very soft landing in 2009, with a Y/Y price decline of -0.3%.

After rising sharply again in 2010, prices appear to be increasing at a slower rate since the end of 2011. Indeed, house prices have swiftly resumed their rise since the 2009 dip: in 2010 the growth was outspoken at 6%, while in 2011 a modest rise of 1.5% was recorded.

The French property market is the only one in the EMU that has had a similar experience. In the other Member States, house prices either went up much more slowly, or there was a considerable correction after there had been a far more robust increase.

The average sale price of houses in 1H 2012 stood at Euro 228.500, according to the Belgian Notary's 'Barometer'. The general level of property prices in Belgium since 2000, however, conceals wide differences between the various types of property. The most striking development is how the price of villas (in the more up-market segment) has lagged behind.

Although it is difficult to make an international comparison of price levels, the data available suggests that house prices in Belgium are not unusually higher than elsewhere in Europe. Indeed, end 2011, the average price for houses and apartments were 4% and 5% higher than the EMU average. On the other hand, Eurostat housing quality data also point out that the physical quality and comfort of Belgian housing is above average in comparison with other European countries. Also OESO data show that for Belgium the ratio of total value of real estate set off against GDP is in line with the rest of the EU.

An increase in population (driven by immigration) and a dilution of households, have pushed up demand for housing over the last decade. Since the turn of the millennium, this demand has shifted more to rented accommodation, which appears to have brought the long-term trend of increasing numbers of people owning their own home to a halt. After the relative supply of housing was strengthened in the 1990s, the ratio of accommodation to households started to fall again from 2000 on and the market became tighter. Nevertheless, greater investment in new builds since 2004 prevented the mounting demand for accommodation from developing into a housing deficit. The sharp increase in property prices in Belgium, however, was not accompanied by a veritable building boom, as was the case in Spain and Ireland. The building sector has suffered badly at the hands of the financial crisis since the end of 2008. After a short-lived recovery, the construction climate has taken a marked turn for the worse since the spring of 2012 due to the crisis flaring up again.

Depending on the approach chosen, measures for valuing the Belgian property market point to an overvaluation in 4Q2011 of between less than 10% and more than 60%. This difference in itself shows that there is considerable uncertainty as to how these measures should be interpreted. The most extreme overvaluation has been generated by traditional price-to-income and price-to-rent ratios, which do have major shortcomings. More reliable and comprehensive approaches (interest-adjusted affordability and regression analysis) give an overvaluation of between five and 15% at year-end 2011.

The property boom coincided with a threefold increase in mortgage lending. This growth was driven by tax incentives, falling interest rates and declining house affordability, which resulted in more and more real estate transactions being funded by loans. Up until 2005, rising property prices were also responsible for pushing up the average amount being borrowed. Since then, the amount of own money used in average funding has increased. The fiscal amnesty of EBA ("*Eenmalige Bevrijdende Aangifte*") played a role in this and – more recently – so has the financial crisis, which stimulated the conversion of financial assets into real estate (especially new buildings), since households still consider property to be a 'safe investment'. The increase in the amount of own funds being used is also being fuelled by the large volume of financial assets held by households in Belgium. As it is being put into the property market, it is pushing up prices and making

it difficult for people to afford real estate that has to be funded out of income and debt. It also accounts for the fact that, despite the decline in macroeconomic loan-to-value (LTV), the proportion of loans with a high LTV (>80%) remains stable at around 40% and that, despite the trend of falling interest rates, people are taking out mortgages for longer on average.

An important factor to consider when judging the Belgian housing market and its resilience, is that the Belgian borrower is in good health, with high private savings ratio, estimated at 16.9% for 2012, while a small decline in disposable household income growth is expected for 2012 (-1.0%), but a rebound is expected for 2013 (+0.3%). (Source: KBC Bank, *Economische Vooruitzichten, Sep 2012*). Also, the mortgage overburden rate, which shows the proportion of the population whose housing costs exceeded 40 % of their equivalised disposable income, shows that, in the EU27 area, 12.1% of all owner occupieds with a mortgage loan are overburdened. For Belgium, this is only 2.5%. (Source: Eurostat, *housing statistics, housing affordability*).

The growth and level of Belgian household debt has been quite limited compared with other European countries. The minor increase in gross debt, however, conceals a sharp deterioration in net financial assets held by Belgian households, with only the decline in Greece being worse. Loan quality is good and there are no signs of it deteriorating, while sensitivity to interest rates is limited. Belgian households' real estate assets are around the EMU average and have increased at the second highest rate over the past decade, with only France recording higher growth. It is no coincidence that France and Belgium were the countries where property prices have hardly undergone a correction to date.

Based on KBC Bank's forecasts of macroeconomic factors determining house prices, it is likely that there will be a cumulated real price correction of about 10% in 2012-2013, which would mean a 'soft landing' for the Belgian property market. In reality, so far, this projected landing is becoming very soft indeed, as our calculations, based on the prices from Statbel, updated to 1H 2012, show a 0.2% Y/Y house price growth so far for 2012.

New mortgage lending has risen by 4% in 2011 (Source: UPC-BVK report), but leading indicators for the housing market, such as building permits for new residences show some cooling down ahead as this statistic fell back slightly at the start of 2012 (Source: Statbel, *statistieken en cijfers/bouwvergunningen*).

KBC Bank's prudent approach of the Belgian housing market is more or less seen also by other banks, albeit with a different timing of events. For instance, ING expects 2012 to be a calm year for house prices, as the bank expects a rise of about 1.5%. 2013 could be better though with a rise of 5%, but ING warns that a correction of 15% is possible in the years thereafter, if rates rise and the fiscal stimulus would be withdrawn in Belgium. (Source: ING, *Focus: Belgian Real Estate 2012-I*).

The macroeconomic impact of a fall in prices will be much more limited in Belgium than in countries like Ireland and Spain, because the boom was not accompanied by a surge in house-building nor an excessive debt accumulation. Given that the vast majority of homes in Belgium are occupied by the owner, negative wealth effects on consumption will be negligible while lower property prices in themselves will not affect people's ability to repay their mortgages.

Rising interest rates constitute the main risk for property prices and would also have an adverse – though probably limited – impact on the quality of the mortgage portfolio. There are two major mitigating factors though for this. Belgians tend to prefer longer term loans, making performance less dependent on short-term rate fluctuations. Also, the ECB seems very much intent on keeping its policy rates low for a longer time, as a means to help Europe surmount its financial crisis.

An increase in unemployment is a bigger risk for the loan portfolio, as it would appear that some borrowers have been incurring increasingly higher debts in recent years to remain active in an ever more expensive market, arising in part from the investment of financial assets. However, the provisions for Belgium the coming years show still unemployment levels below 8% and well below the EU average as well.

Statistical information regarding the default rates of the Belgian mortgage market is available on the website of the NBB (Belgostat section).

Mortgage market features

Belgian borrowers have some distinct characteristics (*Source: UPC/BVK for period 1997-2011*):

- End 2011, borrowers predominantly prefer to take out a longer fixed rate period. 71% is fixed permanently and an additional 4% is fixed for the first ten years of the loan;
- Limited amount of short-term variable rate loans are originated. Appr. 12% is variable in a time period of one to three years;
- Average mortgage loan for the purchase of a home in 2011 was approximately Euro 130.000. The average mortgage loan for the purchase of a house and renovation was approximately Euro 160.000;
- The vast majority of mortgage loans are taken out for the purchase of an existing property, as opposed to for new construction, which made up only 12.6% of new loans in 2011.

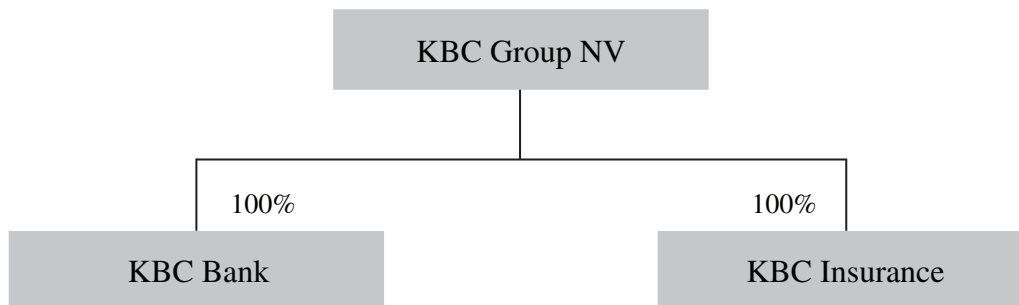
DESCRIPTION OF THE ISSUER

CREATION

KBC Bank NV (**KBC Bank**), a wholly-owned subsidiary of KBC Group NV, was established in Belgium in 1998 as a bank (with number BE-0462.920.226) and operates under the laws of Belgium. KBC Bank's registered office is at Havenlaan 2, B-1080 Brussels, Belgium and it can be contacted via its Telecenter (+32) (0) 78 152 154.

Simplified, KBC Bank was initially formed through the merger of the banking operations of the Almanij Kredietbank group and CERA Bank group (**CERA**). The merger combined the operations of four Belgian banks: Kredietbank, CERA, Bank van Roeselare and CERA Investment Bank. KBC Bank is registered as a credit institution with the National Bank of Belgium (**NBB**).

A simplified schematic of KBC Group's legal structure is provided below. KBC Bank and KBC Insurance NV each have a number of subsidiaries. A list of the subsidiaries of KBC Bank is available in KBC Bank's 2011 annual report.



(simplified presentation)

As at the end of June 2012, the share capital of KBC Bank was EUR 8,948,000,000 and consists of 915,228,482 ordinary shares which have been fully paid up. One of the shares is held by KBC Insurance NV and the remainder are held by KBC Group NV. KBC Group NV's shares are listed on Euronext Brussels and the Luxemburg Stock Exchange. No specific measures are in place to prevent abuse of control. There are no arrangements in place the operation of which may at a subsequent date result in a change of control of KBC Bank.

KBC Bank as full subsidiary of KBC Group NV, also has, besides its banking activities, a holding function for a wide range of group companies, mainly banking and other financial entities in Central and Eastern Europe and in other selected countries, such as Ireland. In its capacity of holding company, KBC Bank is affected by the cash flows from dividends received from these group companies. KBC Bank also functions as funding provider for a number of these group companies.

The major other subsidiary of KBC Group NV is KBC Insurance NV. KBC Bank cooperates closely with KBC Insurance NV, amongst others, in relation to distribution of insurance products.

In the light of the developments relating to the global economic and the financial turmoil in the past years and as a result of the subsequent acceptance of financial support from the Belgian State and Flemish Region, KBC Group was required to submit a restructuring plan for review and approval by the European Commission. The European Commission approved the plan on 18 November 2009. This restructuring plan is discussed further on under the paragraph "The EU Plan of KBC Group".

THE EU PLAN OF KBC GROUP

Since 2009, KBC Group has been working on a strategic analysis of its group-wide activities and of the economic and financial environment KBC Group currently operates in. This effort has resulted in a strategic plan, which has been tested under different macroeconomic scenarios. The plan analysed KBC Group's business and its proposed future strategy, and also served as a basis for the European Commission to assess KBC Group's capacity to redeem the capital securities subscribed by the Belgian State and the Flemish Region of Belgium within a reasonable timeframe. This is common practice for European financial institutions that have taken part in economic stimulus plans launched by the EU Member States. The plan was cleared by European regulatory authorities on 18 November 2009.

Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS on leases), and the difficulty involved in floating K&H Bank in the current circumstances, some measures presented in the initial strategic plan had become less effective or less feasible in achieving the intended aim of repaying the state aid in a timely manner.

In 2011, KBC Group therefore proposed to replace the initial public offerings of a minority stake in CSOB Bank (Czech Republic) and K&H Bank (Hungary) and the sale and lease back of the headquarter offices in Belgium foreseen in the initial strategic plan, by the divestment of Kredyt Bank and Warta in Poland and the sale or unwind of selected ABS (asset backed securities) and CDO (collateralized debt obligations) assets.

This proposal was accepted by the EU Commission on 27 July 2011 (the **EU Plan**).

In this strategy, basis for the EU Plan, KBC Group refocuses on its core bank-insurance activities in Belgium and 4 selected countries in Central and Eastern Europe (Czech and Slovak Republics, Hungary and Bulgaria). A number of subsidiaries and activities, many of which related to investment banking activities, are already or will be scaled down or sold by year end 2013. International corporate lending outside the home markets will be scaled down. This strategic plan is intended to provide flexibility to cope with potential setbacks, such as worse-than-anticipated macroeconomic growth figures.

For the Belgium Business Unit, the core strategy continues to be based on an integrated relationship bank-insurance model via a dense network. It was decided to divest the complementary sales channels of Centea and Fidea (the latter belonging to KBC Insurance NV) to generate repayment capacity for the capital securities issued to the Belgian and Flemish governments. In July 2011, Centea was sold. In March 2012, Fidea was sold.

For the Central and Eastern Europe Business Unit, the core strategy is based on a refined integrated bank-insurance model in selected countries where KBC Group has a strong foothold (Czech and Slovak Republics, Hungary and Bulgaria). Kredyt Bank and Warta (including most of their Polish subsidiaries), Absolut Bank (Russia), KBC Banca (Serbia, subsidiary of KBC Insurance), Nova Ljubljanska Banka (Slovenia, minority stake) and Zagiel (Polish consumer finance) are considered to be non-core in the new strategy. For some, the divestment process is ongoing, others are already divested:

- In July 2012, Warta was sold.
- In February 2012, KBC and Banco Santander announced their intention to merge their respective Polish banking subsidiaries, Kredyt Bank and BZ WBK); the merger was signed by both entities management boards in May 2012 and approved by both entities general share holders meetings as well as by the EU competition authorities, The process to obtain FSA regulatory approval is underway. KBC intends to sell its participation in the merged entity.
- In July 2012, Zagiel was sold.

For the Merchant Banking Business Unit, this strategy entails a major reduction of scope and risk profile as the objective is to exit in an orderly manner from the bulk of the lending and investment banking activities that do not have clear synergies with the Belgium and Central and Eastern European markets. Some branches are/will be closed, while, inter alia, Antwerp Diamond Bank, KBC Bank Deutschland, KBC Finance Ireland, KBC Financial Products and KBC Peel Hunt are earmarked for divestment (some of which are already

realised) or wind-down, and the international credit portfolio outside the home markets is being scaled down. The remaining merchant banking activities have a strategic fit with KBC Group's home market activities.

The entire former European Private Banking Business Unit (consisting of KBC Bank's former sister companies KBL European Private Bankers and Vitis Life) was considered non-core and was sold in July 2012 in order to help pay back the capital securities issued to the Belgian and Flemish governments.

All the above actions and transactions have reduced KBC Group's total RWA (risk-weighted assets) by 32% from its peak of EUR 155bn in December 2008 to a pro forma level of EUR 106bn (including the divestment of KB) at the end of June 2012.

PEARL, THE STRATEGIC PLAN OF KBC GROUP BEYOND 2013

On 8 October 2012, KBC Group announced publically its strategic plan for the future (the **Strategic Plan**), called PEARL. PEARL is an acronym for five underlying imperatives of KBC Group's mission, ie 'Performance', 'Empowerment', 'Accountability', 'Responsiveness' and 'Local embeddedness'. Six drivers define KBC Group's updated strategy, '2013 and beyond':

- KBC Group will focus first and foremost on the client. KBC Group aims at building and deepening sustainable relationships with retail, SME (small and medium enterprises) and midcap clients. KBC Group's competitive advantage is understanding local clients and tailoring to their local needs. Hence, 'local responsiveness' is the key strategic priority and thus the point of gravity is local.
- KBC Group continues to focus on core bank and core insurance products and services. KBC Group confirms its long-standing and long-term commitment to its integrated bank-insurance model, a model which KBC Group has mastered and which has produced excellent results through the cycle.
- KBC Group clearly defines its core markets as those markets where it is present with banking and insurance companies. These core markets are Belgium, the Czech Republic, Hungary, Slovakia and Bulgaria, where the group is strongly embedded in the local economies. In some of these markets KBC Group has achieved a market leadership position. All activities which do not contribute to serving the client relationships in KBC Group's core markets will be stopped.
- KBC Group further mobilises cross-border co-operation and group leverage to create cost-efficiencies throughout the group. International Product Factories and International Service Providers will focus on offering products and services which support and are tailored to the distribution strategy of the business units and help to increase local responsiveness. Exchange of know-how, best practices, experience, products and services between the different business units and corporate functions will be stimulated through communities.
- KBC Group implements a new organisational structure that is fully aligned with the strategic choices and which supports effective decision making and accountability. The new structure includes, among other things, the creation of a new, separate business unit for the Czech Republic franchise, and clarification of the future role of the Merchant Banking Business Unit.
- KBC Group commits to a clearly defined group culture. KBC Group will strengthen its agility and responsiveness by emphasising and streamlining performance management and accountability for all staff. A clear link will be established between the strategic priorities and accountability (through key performance indicators).

As at the date hereof the deleveraging of KBC Group and reduction in risk-weighted assets (mainly in the Merchant Banking Business Unit) is well advanced and the implementation of the divestment and restructuring plan agreed with the European Commission is drawing to a close, KBC Group has clarified the future role of the Merchant Banking Business Unit. The current Merchant Banking Business Unit will be split mainly into:

- Corporate Banking Belgium, which, in line with the principle of local responsiveness, has been shifted to the Belgium Business Unit.

- Activities such as Markets and Securities – global by nature – which have been shifted into the new International Product Factories Business Unit.
- Ireland, which will be incorporated into the new International Markets Business Unit. Ireland – not having an integrated bank-insurance model – remains an exception, where in the coming years KBC Bank Ireland will be managed to maximise its value contribution through its retail banking business.

Based on the focus on local economies and the integrated relationship bank-insurance model, the other corporate banking activities will be positioned as part of each local business unit. In addition, because the corporate banking segment contains client types that can differ from country to country, the incorporation of this segment into the various business units will provide for better alignment of larger SME and smaller corporate clients.

Based on a re-assessment of the global nature of activities and services, the current Shared Services & Operations Business Unit has been split into:

- Country and international product factories. Truly international product factories (eg, KBC Asset Management and KBC Securities) will be moved into the new International Product Factories Business Unit. Other, not truly international, product factories (eg Lease) will be divided into the different business units as (embedded) Country Product Factories.
- International service providers (eg internal ICT department) will be moved into the new Corporate Change & Support Division.

The strategic choices will be fully reflected in a new group structure, which comprises three building blocks and eight vertical pillars, each focusing on its individual contribution to the group. The KBC Group Executive Committee will define the ‘chalk lines’ for each of the pillars outlined below and will monitor and guard them closely.

- The ‘generate’ building block, consisting of four pillars (ie the business units).

These business units will be the beating heart of the group, focusing on local business and contributing to sustainable profit and growth by catering for clients’ needs. They will be fully responsible and accountable for achieving their targets and will be the final decision-takers for their core domain.

Belgium Business Unit and the newly created **Czech Republic Business Unit**: both mature market leaders, will ensure stable, growing, high-level profitability.

International Markets Business Unit: will contain the other core Central and Eastern European countries, Slovakia, Hungary and Bulgaria. These will be the growth generators. KBC Bank Ireland will also belong to this business unit, as will the non-core entities earmarked for divestment (Russia, Serbia, Antwerp Diamond Bank, etc).

International Product Factories Business Unit: will include Asset Management, Trade Finance, Consumer Finance, Markets & Securities, etc

- The ‘improve’ building block, consisting of the ‘**Corporate Change & Support**’, ‘**CRO Services**’ and ‘**CFO Services**’ pillars, will act as an internal regulator, but must above all support the business units.
- The ‘develop’ building block consisting of the ‘**Corporate Staff**’ pillar will be a competence centre for strategic know-how and best practices on corporate organisation and communication. It will support and serve the Group Executive Committee and the business units. This pillar will be dedicated to stimulating corporate collaboration.

The new organisational structure will be implemented as of 1 January 2013.

MANAGEMENT STRUCTURE

Current 2012 management structure

The management structure of KBC Group and KBC Bank Group is built around a number of business units: Belgium, Central & Eastern Europe, Merchant Banking and Shared Services & Operations. Each business unit is headed by a Chief Executive Officer (CEO), and these CEOs, together with the KBC Group CEO, the KBC Group Chief Risk Officer (CRO) and the KBC Group Chief Financial Officer (CFO), constitute the executive committee.

The business units are defined further below. The comments will focus on the (parts of the) business units that are relevant for KBC Bank Group. The Shared Services & Operations business unit provides support to and serves as a product provider for the other business units. It encompasses a number of divisions that provide products and services to the entire KBC Group. The expenses and income of the Shared Services & Operations business unit are passed on to the other business units and consequently reflected in their results. The main divisions belonging to this unit are Asset Management, Payments, Consumer Finance, Trade Finance, ICT, Leasing and Organisation.

Set out below is a simplified overview of the activities and geographical reach of the other three Business Units:

	Belgium Business Unit	Central & Eastern Europe Business Unit	Merchant Banking Business Unit
Main activities	Retail and private bank-insurance	Retail and private bank-insurance and merchant banking Home countries: Czech Republic, Slovakia, Hungary, Bulgaria	Corporate banking and market activities
Geographical area (main countries)	Belgium	Other countries: Poland, Russia Serbia, Slovenia (minority participation)	Belgium and selected countries in Europe, North America and Southeast Asia

A list of the major companies that are subsidiaries of or in which KBC Bank has significant undertakings in, is provided below. It should be noted that the Strategic Plan (which also impacts KBC Bank Group), among other things, includes a planned divestment of a number of KBC Group companies. In KBC Bank's financial reports as of 2010, the results of all companies that are planned for divestment, are moved from their respective business units to a so-called 'Group Centre'.

Future management structure, starting 1 January 2013

Starting 1 January 2013 expenses and income of KBC Group are the sum of expenses and income of the business units Belgium, Czech Republic and International Markets. All other pillars' expenses and income, ie International Product Factories Business Unit, CRO Services, CFO Services, Corporate Change & Support and Corporate Staff, are passed on to the other business units and consequently reflected in their results.

Each business unit and the pillar 'Corporate Change & Support' is headed by a Chief Executive Officer (CEO), and these CEOs, together with the KBC Group CEO, the KBC Group Chief Risk Officer (CRO) and the KBC Group Chief Financial Officer (CFO), constitute the executive committee.

The business units changes are defined further below.

SHORT PRESENTATION OF KBC BANK GROUP

Shareholders (30 June 2012)	Number of shares
KBC Group NV	915,228,481
KBC Insurance NV	1
Total	915,228,482

The shareholdership of KBC Group NV is available on www.kbc.com.

Income Statement

The table below sets out highlights of the information extracted from KBC Bank's audited comprehensive income statement for each of the two years ended 31 December 2010 and 31 December 2011 and from KBC Bank's unaudited comprehensive income statement for each of the 6 month periods ended 30 June 2011 and 30 June 2012, respectively:

In millions of EUR	2010	2011
Net interest income	5,279	4,484
Dividend income	51	33
Net result from financial instruments at fair value through profit or loss	-277	2
Net realised result from available-for-sale assets	45	85
Net fee and commission income	1,638	1,565
Other net income	259	-50
TOTAL INCOME	6,995	6,119
Operating expenses	-3,861	-3,709
Impairment	-1,635	-1,659
Share in results of associated companies	-54	-52
RESULT BEFORE TAX	1,445	699
Income tax expense	88	-216
RESULT AFTER TAX	1,533	483
Attributable to minority interest	139	136
Attributable to equity holders of the parent	1,395	347
In millions of EUR	1H 2011	1H 2012
Net interest income	2,301	2,012
Dividend income	21	3
Net result from financial instruments at fair value through profit or loss	288	-128
Net realised result from available-for-sale assets	27	-11
Net fee and commission income	792	782
Other net income	129	52
TOTAL INCOME	3,557	2,710
Operating expenses	-1,933	-1,855
Impairment	-354	-1,583
Share in results of associated companies	5	10
RESULT BEFORE TAX	1,275	-718
Income tax expense	-289	-94
RESULT AFTER TAX	986	-812
Attributable to minority interest	75	53
Attributable to equity holders of the parent	911	-865

In millions of EUR	1H 2010	1H 2011
Net interest income	2,611	2,301
Dividend income	25	21
Net result from financial instruments at fair value through profit or loss	-700	288
Net realised result from available-for-sale assets	26	27
Net fee and commission income	871	792
Other net income	224	129
TOTAL INCOME	3,057	3,557
Operating expenses	-1,855	-1,933
Impairment	-668	-354
Share in results of associated companies	-6	5
RESULT BEFORE TAX	528	1275
Income tax expense	237	-289
RESULT AFTER TAX	765	986
Attributable to minority interest	67	75
Attributable to equity holders of the parent	698	911

Statement of Financial Position

The table below sets out highlights of the information extracted from KBC Bank's audited statement of financial position as at 31 December 2010 and 31 December 2011 and from KBC Bank's unaudited statement of financial position as at 30 June 2012:

Highlights of the consolidated balance sheet and ratios,

KBC Bank

(in millions of EUR, or %)

	31-12-2011	30-06-2012
Total assets	241,076	243,749
Loans and advances to customers*	140,078	133,740
Securities (equity and debt instruments)*	46,740	45,509
Deposits from customers and debt securities*	171,605	168,444
Risk weighted assets	106,256	100,530
Total equity	12,093	11,506
of which parent shareholders' equity	11,117	10,585

Highlights of the balance-sheet and solvency items, KBC Bank (in millions of EUR)

	2010	2011
Total assets	276,723	241,076
Loans and advances to customers	151,326	140,078
Securities (equity and debt instruments)	66,751	46,740
Deposits from customers and debt securities	202,007	171,605
Risk-weighted assets	111,711	106,256
Total equity	14,142	12,093
Parent shareholders' equity	13,193	11,117
Minority interests	950	975

RATINGS OF KBC BANK NV

Long-term credit ratings (as at 10 September 2012)

Fitch	A-
Moody's	A3
Standard and Poor's	A-

Each such credit rating agency⁽¹⁾ is established in the European Union and is registered under Regulation (EC) No. 1060/2009 and listed on the "List of Registered and Certified CRA's" as published by ESMA in accordance with Article 18(3) of such Regulation.

Standard & Poor's Credit Market Services Italy Srl. ("Standard & Poor's"): An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong. (Source: www.standardandpoors.com).

Moody's France S.A.S. ("Moody's"): Obligations rated A are judged to be upper-medium grade and are subject to low credit risk. The modifier 3 indicates a ranking in the lower end of that generic rating category. (Source: www.moodys.com).

Fitch France S.A.S. ("Fitch"): 'A' ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. (Source: www.fitchratings.com).

The description of the ratings provided above has been extracted from the specified website of the relevant rating agency. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from such sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. The web-site of the relevant rating agencies have been provided as sources only and no information from any such web-site is deemed to be incorporated in or forms part of this Base Prospectus and the Issuer does not take any responsibility for the information contained in any such web-site.

Ratings can change. Various ratings exist. Investors should look at www.kbc.com for the most recent ratings and for the underlying full analysis of each rating agency to understand the meaning of each rating.

1. A list of credit rating agencies registered under Regulation (EC) No. 1060/2009 and listed on the "List of Registered and Certified CRA's" is published on the ESMA website (<http://esma.europa.eu/page/List-registered-and-certified-CRAs>)

MAIN COMPANIES WHICH ARE SUBSIDIARIES OF KBC BANK GROUP OR IN WHICH THEY HAVE SIGNIFICANT HOLDINGS AS OF 30 JUNE 2012

Company	Registered office	Ownership percentage of KBC Bank	Activity (simplified)
Main fully consolidated subsidiaries			
Absolut Bank	Moscow – RU	99.00	Credit institution
Antwerpse Diamantbank NV	Antwerp – BE	100.00	Credit institution
CBC Banque SA	Brussels – BE	100.00	Credit institution
CIBANK AED	Sofia – BG	100.00	Credit institution
ČSOB a.s. (Czech Republic)	Prague – CZ	100.00	Credit institution
ČSOB a.s. (Slovak Republic)	Bratislava – SK	100.00	Credit institution
KBC Asset Management NV	Brussels – BE	51.86	Asset management
KBC Bank NV	Brussels – BE	100.00	Credit institution
KBC Bank Deutschland AG	Bremen – DE	100.00	Credit institution
KBC Bank Funding LLC & Trust (group)	New York – US	100.00	Issuance of trust preferred securities
KBC Bank Ireland Plc.	Dublin – IE	100.00	Credit institution
KBC Commercial Finance NV	Brussels – BE	100.00	Factoring
KBC Consumer Finance NV	Brussels – BE	100.00	Consumer finance
KBC Credit Investments NV	Brussels – BE	100.00	Investments in credit-linked securities
KBC Finance Ireland	Dublin – IE	100.00	Lending
KBC Financial Products (group)	Various locations	100.00	Shares and derivatives trading
KBC Internationale Financieringsmaatschappij NV	Rotterdam – NL	100.00	Issuance of bonds
KBC Lease (group)	Various locations	100.00	Leasing
KBC Private Equity NV	Brussels – BE	100.00	Private equity
KBC Real Estate NV	Brussels – BE	100.00	Real estate
KBC Securities NV	Brussels – BE	100.00	Stock exchange broker/corporate finance
K&H Bank Rt.	Budapest – HU	100.00	Credit institution
Kredyt Bank SA	Warsaw – PL	80.00	Credit institution
Main company accounted for using the equity method			
Nova Ljubljanska banka d.d. (NLB)	Ljubljana – SI	25.00*	Credit institution

*Early July 2012 decreased to 22% (following a capital increase in which KBC Bank did not participate)

A full list of companies belonging to KBC Bank Group is provided in its 2011 annual report.

GENERAL DESCRIPTION OF ACTIVITIES OF KBC BANK GROUP

KBC Bank Group is a multi-channel bank that caters primarily to private persons, SMEs and midcaps. Its geographic focus is on Europe. In its two “home” markets (Belgium and certain countries in Central and Eastern Europe) it has important and (in some cases) even leading positions. In these home markets, according to the Strategic Plan, it aims to position itself among the market leaders and in those markets it adopts a general approach. In the rest of the world, KBC Bank Group has a selective presence in certain countries or areas.

KBC Bank Group’s core business is retail and private bank-insurance (including asset management) in its two home markets, though it is also active in services to larger corporations and market activities. Across these markets, KBC Bank Group is active in a large number of products and activities, ranging from the plain vanilla deposit, credit, asset management and insurance businesses (via its sister company, KBC Insurance NV), to specialised activities (which are conducted out of specialised departments at head office or specialised KBC Bank Group companies) such as, but not exclusively, payments services, dealing room activities (money and debt market activities), brokerage and corporate finance, foreign trade finance, international cash management and leasing.

As set out in the Strategic Plan, the KBC Bank Group is refocusing its business on its core bank-insurance activities in Belgium and a number of countries in Central and Eastern Europe (ie the home markets of Czech Republic, Slovakia, Hungary and Bulgaria). Therefore, a number of subsidiaries and activities, many of which related to investment banking activities, have been or are planned to be scaled down or sold in the coming years. International corporate lending outside the home markets is being downscaled.

The progress of the execution of the EU Plan is commented upon in the 2011 annual report and subsequent interim reports of KBC Bank and (in an abbreviated form) further on in this chapter. In 2010, 2011 and the first eight months of 2012, a number of divestment transactions were carried out, including the divestment of, inter alia, a large number of activities of KBC Financial Products (U.S. reverse mortgage portfolio, Japanese cash equity operations, U.S. life settlement portfolio, convertible bond and Asian equity derivatives), KBC Peel Hunt, British and Irish activities of KBC Asset Management, KBC Securities Baltic Investment Company, KBC Business Capital, Secura (subsidiary of KBC Insurance NV), Centea, Fidea (subsidiary of KBC Insurance NV), KBL European Private Bankers (sister company of KBC Bank), KBC Concord Asset Management, KBC Goldstate, the activities of KBC Securities in Serbia and Romania, KBC Autolease Polska, Zagiel and WARTA (subsidiary of KBC Insurance NV). In February 2012, KBC Group announced that it had concluded an agreement with Banco Santander S.A. with regard to the merger of the respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank (subsidiary of KBC Bank), ultimately with the aim to sell KBC’s shareholding in the merged bank (deal not yet closed). In addition, the gradual run-down of the credit portfolio outside the home markets is progressing well and a number of remaining divestment projects are in progress (KBC Bank Deutschland, Antwerpse Diamantbank, Absolut Bank).

BELGIUM BUSINESS UNIT

Current 2012 activities

This business unit brings together all the KBC Group’s retail and private banking and insurance activities in Belgium. More specifically, it comprises the Belgian retail and private banking activities of KBC Bank, the Belgian activities of KBC Insurance NV and the activities of a number of Belgian subsidiaries of KBC Bank and KBC Insurance NV.

The main KBC Bank entity belonging to this business unit mid 2012 was CBC Banque SA (**CBC Banque**) and additionally this business unit includes the Belgian retail and private banking activities of KBC Bank.

Future activities, starting 1 January 2013

The scope of the Belgium Business Unit will be extended with:

- Belgian Corporate Banking activities (including the international branches);

- Former Group-Wide Product Providers to become embedded (Country Product Factory):
 - Lease;
 - Payments partially, ie cash, current accounts, cheques, drafts, cards, domestic and SEPA payments.

Network

Bank network in Belgium

Bank network in Belgium (as at 31 December 2011)*	Market share	Retail and Private Bank Branches
KBC Bank, CBC Banque	19%	818

* Figures for market share relate to customer deposits and credits (average of the two) and are KBC Bank estimates.

At the end of 2011, KBC Bank Group had a network of over 800 retail branches and private banking branches in Belgium (KBC Bank branches in the Dutch-speaking part of Belgium and CBC Banque branches in the French-speaking part of Belgium). The 26 corporate branches in Belgium are mentioned further on, under the Merchant Banking Business Unit section.

The retail branches of KBC Bank and CBC Banque focus on providing private persons and small SME's in Belgium with a broad area of credit, deposit, asset management and other financial banking products and services, as well as insurance products (in co-operation with KBC Insurance NV).

The private banking branches of KBC Bank and CBC Banque offer high-net-worth customers a broad range of private banking services. Via these branches, KBC Bank and CBC Banque provide both advisory and discretionary portfolio management services, tailored to clients' individual needs and objectives.

KBC Bank and CBC Banque serve, based on their own estimates, over 3 million customers in Belgium.

Bank-insurance

The KBC Group considers itself to be an integrated bank-insurer. Certain shared and support services are organised at group level, serving the entire KBC Group, and not just the bank or insurance businesses separately. It is KBC Group's aim to continue to actively encourage the cross-selling of bank and insurance products. The success of KBC Group's integrated bank-insurance model is in part due to the co-operation that exists between the bank branches of KBC Bank and the insurance agents of KBC Insurance NV, whereby the branches sell standard insurance products to retail customers and refer their customers to the insurance agents for non-standard products. Claims-handling is the responsibility of the insurance agents, the call centre and the head office departments at KBC Insurance NV.

Market share

As of 31 December 2011, KBC Bank Group had, based on its own estimates, a 17% share of the Belgian deposit market and a 21% share of the lending market. Over the past few years, KBC Bank Group has built up a strong position in investment funds too, and leads the Belgian market with an estimated share of 39%.

Electronic channels

KBC Bank Group's bricks-and-mortar networks in Belgium are supplemented by electronic channels, such as ATMs, telephones and the Internet.

Divestments

As set out in the EU Plan, the KBC Bank Group is refocusing on its core bank-insurance activities in Belgium and selected countries in Central and Eastern Europe. A number of subsidiaries and activities are planned to be or have been scaled back or sold.

CENTRAL AND EASTERN EUROPE BUSINESS UNIT

Current 2012 activities

This business unit comprises all KBC Group's banking and insurance activities (ie retail bank-insurance and merchant banking) pursued in Central and Eastern Europe.

The main KBC Bank entities that belonged to this business unit mid 2012 were CIBANK (Bulgaria), ČSOB (Slovakia), ČSOB (Czech Republic) and K&H Bank (Hungary). Absolut Bank (Russia), Nova Ljubljanska banka (NLB, Slovenia; minority share) and Kredyt Bank (Poland) also belong to this business unit.

Future activities, starting 1 January 2013

The Central and Eastern Europe Business Unit will be split up into two separate business units:

- **Czech Republic Business Unit**, which equals current banking and insurance activities in the Czech Republic, ie Retail, Private, SME and Corporate Distribution (marketing, direct channels, branches), Country Product Factories (Life Insurance, Non-Life Insurance, Credits), Country Service Providers (Human Resources, Facilities, Communication) and Strategy & Governance functions (Strategy, Finance, ALM, Legal, Compliance, Inspection, Risk). Also some specific local companies, such as Hypoteční Banka. The scope will be extended with former Group-Wide Product Providers to become embedded (Country Product Factory), ie Lease and partially Payments (cash, current accounts, cards and domestic payments).
- **International Markets Business Unit**, which exists out of three different parts:
 - 'International markets', being the core countries Slovakia, Hungary and Bulgaria;
 - 'Non-core countries', currently on the divestment list, a/o Russia, Serbia, Slovenia and Germany;
 - Ireland, that will be managed to maximise its value contribution, without deploying the integrated bank-insurance model.

The 'International markets' are considered to be (profit and) growth generators. Their market share has to be increased both in banking and insurance. Given their current size, keeping them together while providing for special care and fostering, seems the best way to support their objectives.

Network

Bank network in Central and Eastern Europe (as at 31 December 2011)¹

		Est. market share	Bank Branches
Home countries			
Czech Republic	ČSOB	20%	314
Slovakia	ČSOB	10%	129
Hungary	K&H Bank	9%	246
Bulgaria	CIBANK	3%	117
Other countries (to be divested)			
Poland	Kredyt Bank	3-4%	
Serbia ²	KBC Banka ²	>1%	
Russia	Absolut Bank	<1%	

1 Figures for market share relate to customer deposits and credits (average of the two) and are own KBC Bank's estimates. These figures exclude the minority stake in Nova Ljubljanska banka in Slovenia.

2 KBC Banka is a subsidiary of KBC Insurance NV

Over the past few years, KBC Bank Group has built up an extensive network in a number of countries in Central and Eastern Europe. In its four home countries, KBC Bank caters to an estimated 4.7 million customers. This customer base, along with KBC Group's insurance customers in the region (via KBC Insurance NV subsidiaries), make the KBC Group one of the larger financial groups in the Central and Eastern European region.

Bank-insurance

KBC Group's bank-insurance concept (see under Belgium Business Unit) has over the past few years been exported to its Central and Eastern European entities. In order to be able to do so, KBC Group has built up a second home market in Central and Eastern Europe in insurance too (via KBC Insurance NV). KBC Group now has an insurance business in every Central and Eastern European home country. In the Czech Republic, the Group's insurer is ČSOB Pojist'ovňa; in Slovakia, ČSOB Poist'ovňa; in Hungary, K&H Insurance and in Bulgaria, DZI Insurance.

Contrary to the situation of KBC Bank in Belgium, KBC Group's insurance companies in Central and Eastern Europe operate not only via tied agents (and bank branches) but also via other distribution channels, such as insurance brokers and multi-agents.

Market share

As of 31 December 2011, the KBC Bank Group's estimated market share (the average of the share of the lending market and the deposit market) came to 20% in the Czech Republic, 10% in Slovakia, 9% in Hungary, and 3% in Bulgaria (rounded figures). The market shares in both Serbia and Russia are limited; in Poland, the market share of Kredyt Bank is roughly 3 to 4%. KBC Bank Group also has a strong position in the investment fund market in Central and Eastern Europe (estimated at 31% in the Czech Republic, 10% in Slovakia and 20% in Hungary).

Electronic channels

Just as in Belgium, the bricks-and-mortar networks in Central and Eastern Europe are supplemented by electronic channels, such as ATMs, telephone and the Internet.

Expansion

No significant acquisitions are planned in the foreseeable future.

Divestments

For the Central and Eastern Europe Business Unit, the strategy is based on a refined integrated bank-insurance model in selected countries (Czech and Slovak Republics, Hungary and Bulgaria). Absolut Bank (Russia), KBC Banka (Serbia, subsidiary of KBC Insurance NV) and (the minority share in) Nova Ljubljanska banka (Slovenia) are considered to be non-core in the strategy and are planned to be divested in future. Following a change to the EU Plan mid 2011*, Kredyt Bank is also to be divested. In February 2012, KBC announced that it had concluded an agreement with Banco Santander S.A. with regard to the merger of the respective Polish subsidiaries, Bank Zachodni WBK and Kredyt Bank (subsidiary of KBC Bank), ultimately with the aim to sell KBC's shareholding in the merged bank (deal not yet closed). In July 2012, Zagiel (Polish consumer finance) was sold to Santander Consumer Finance.

* On 13 July 2011, it was announced that KBC Group had formally applied to the European Commission to amend its 2009 EU Plan. KBC Group and the Belgian authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake in CSOB Bank (Czech Republic) and in K&H Bank (Hungary), as well as the sale and lease back of KBC's head office in Belgium, by the divestment of KBC's Polish subsidiaries, Kredyt Bank (subsidiary of KBC Bank) and Warta (subsidiary of KBC Insurance), and their subsidiaries, and the sale or unwinding of selected ABS and CDO assets. The application was approved by the European Commission on 27 July 2011.

Hungary

The 2011 annual report of KBC Bank also provides details on the loan portfolio of K&H Bank in Hungary, a feature of which is the relatively large share of retail loans in foreign currency. New legislation in Hungary regarding this issue caused K&H Bank to book significant additional loan loss provisions in 2011.

MERCHANT BANKING BUSINESS UNIT

Current 2012 activities

This business unit comprises the KBC Group's banking services provided to larger SME and corporate customers, as well as all capital market activities (apart from the merchant banking activities performed by the KBC Group's companies in Central and Eastern Europe, which are recorded under the Central and Eastern European Business Unit).

The main KBC Bank Group entities or operations belonging to this business unit mid 2012 were KBC Commercial Finance (Belgium), the merchant banking activities of KBC Bank, KBC Bank Ireland (Ireland), KBC Credit Investments (Belgium), KBC Internationale Financieringsmaatschappij, the Issuer (Netherlands), and KBC Securities (various countries).

Antwerpse Diamantbank (various countries), KBC Bank Deutschland (Germany), KBC Financial Products (various countries – various activities already divested) and KBC Peel Hunt (UK – already sold) also belong(ed) to the Merchant Banking Business Unit, but as they are earmarked for divestment, their results were shifted to the 'Group Centre' in the financial reporting as of 2010.

Future activities, starting 1 January 2013

As of 1 January 2013, the Merchant Banking Business Unit will no longer exist. It will be split mainly into:

- Corporate Banking Belgium, which, in line with the principle of local responsiveness, has been shifted to the Belgium Business Unit.
- Activities such as Markets and Securities – global by nature – which have been shifted into the new International Product Factories Business Unit.
- Ireland, which will be incorporated into the new International Markets Business Unit.

Based on the focus on local economies and the integrated relationship bank-insurance model, the other corporate banking activities will be positioned as part of each local business unit. In addition, because the corporate banking segment contains client types that can differ from country to country, the incorporation of this segment into the various business units will provide for better alignment of larger SME and smaller corporate clients Network

The (in total 26) corporate branches of KBC Bank and succursales of CBC Banque in Belgium provide products and services to corporates in Belgium (mainly large SMEs).

Outside Belgium and Central and Eastern Europe, KBC Bank concentrates on merchant banking through a network of KBC Bank representative offices, branches and subsidiaries. The KBC Bank representative offices and branches are located mainly in Western Europe, Southeast Asia and the U.S. As set out in the Strategic Plan, the main focus of these representative offices and branches is to serve customers that already do business with KBC Bank Groups' Belgian or Central and Eastern European network. As a result many of the other (niche) activities are considered non-core and are being scaled down, stopped or sold, and the credit portfolio is being scaled down.

Corporate banking activities are also performed by a number of subsidiaries, including KBC Bank Deutschland and KBC Bank Ireland (an Irish bank that provides financial services to SMEs and corporate customers, and also has a sizeable share of its home loan market – KBC Bank's annual report provides details on the portfolio of this subsidiary). KBC Bank Group also provides specialised corporate services via

subsidiaries that specialise in the area of real estate services, leasing, finance for the diamond trade, etc. In the EU Plan, a number of these activities are considered non-core and are planned for divestment.

Besides corporate banking, KBC Bank Group is also involved in a number of market activities, including dealing room activities (money and debt market activities, via a number of dealing rooms in Europe, the United States and South East Asia), brokerage and corporate finance (mainly via KBC Securities), other specialised market activities (via KBC Financial Products – under the EU Plan, many activities are already sold), etc. In the KBC Group's strategy, a number of these activities are considered non-core and are being scaled down, stopped or sold. For some of the planned divestments, a sale agreement has already been signed.

Market share

As of 31 December 2011, KBC Bank Group accounted for (based on its own approximate estimates) somewhat less than a quarter of the Belgian commercial credit market.

Electronic channels

KBC Bank Group offers various electronic services to its business customers, including KBC-Online for Business, KBC-Flexims (an internet channel that customers can use to apply to KBC Bank for documentary credit, documentary collections and international bank guarantees or to modify such facilities), Go & Deal (an internet channel that customers can use to trade FX and money market cash products) and WISE, which enables companies to remotely initiate and approve local and cross border payments and direct debits.

Divestments

Under the EU Plan, the KBC Bank Group will refocus on its core bank-insurance activities in Belgium and selected countries in Central and Eastern Europe. A number of subsidiaries and activities, many of which related to investment banking activities, are planned to be built down or sold. For the Merchant Banking Business Unit, this entails a major reduction of scope and risk profile.

During 2010, 2011 and the eight months of 2012, a number of merchant bank activities and subsidiaries were sold, including, among others, KBC Peel Hunt (management buy-out), KBC Business Capital, KBC Securities Baltic Investment Company (management buy out), a number of activities of KBC Financial Products and the activities of KBC Securities in Serbia and Romania. Moreover, the loan international portfolio was scaled down. The divestment processes for KBC Bank Deutschland and Antwerpse Diamantbank are in progress.

Ireland

In relation to KBC Bank Group's presence in Ireland (via KBC Bank Ireland), details on the Irish loan book (including related impairments) are provided in the annual report of KBC Bank. In 2011, KBC Bank set aside 0.5 billion euros in additional loan loss provisions for this Irish loan book and as at end 2011, approximately 17.7% of the Irish loan book was classified as non-performing. In 1H2012, 0.3 billion in additional loan loss provisions were booked and as at 30 June 2012, 21.4% of the portfolio was non-performing.

GROUP CENTRE

As already explained, in KBC Bank's financial reporting, the results of the major companies that are earmarked for divestment under the EU Plan were shifted to the Group Centre. These companies were mentioned in earlier paragraphs.

COMPETITION

All of KBC Bank Group's operations face competition in the sectors they serve.

Depending on the activity, competitor companies include other commercial banks, saving banks, loan institutions, consumer finance companies, investment banks, brokerage firms, insurance companies, specialised finance companies, asset managers, private bankers, investment companies, etc.

In both Belgium and Central and Eastern Europe, KBC Bank Group has an extensive network of branches and KBC Bank Group believes most of its companies have a strong name brand recognition in their respective markets.

In Belgium, KBC Bank Group is perceived as belonging to the top four financial institutions. For certain products or activities, KBC Bank Group estimates it has a leading position (eg in the area of investment funds). The main competitors in Belgium are BNP Paribas Fortis, Belfius and ING, although for certain products, services or markets, other financial institutions may also be important competitors.

In its Central and Eastern European home market, KBC Bank Group is one of the important financial groups, occupying significant positions in banking. In this respect, KBC Bank Group competes, in each of these countries, against local financial institutions, as well as subsidiaries of other large foreign financial groups (such as Erste Bank, Unicredit and others).

In the rest of the world, KBC Bank Group's presence mainly consists of a limited number of branches and subsidiaries. In this case, KBC Bank Group faces competition both from local companies and international financial groups.

RISK MANAGEMENT

Risk management in KBC Group is effected group-wide. As a consequence, the risk management for KBC Bank is embedded in KBC Group risk management and cannot be seen separately from it.

A description of risk management is available in the 2011 risk report, available on www.kbc.com.²

Risk governance

Mainly active in banking and asset management, KBC Bank is exposed to a number of typical risks such as – but certainly not exclusively – credit risk, market risks (eg movements in interest rates, capital markets risk, currency risk and liquidity risk), operational risk, exposure to emerging markets, changes in regulations and customer litigation as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans under the Strategic Plan may have a negative impact on asset values or generate additional charges beyond anticipated levels.

Below follows a description of credit risk, market risk (trading & non-trading activities) liquidity risk and operational risk. A selection of figures on credit risk, ALM (asset and liability management) and market risk in trading activities are provided further on.

- Credit risk is the potential negative deviation from the expected value of a financial instrument arising from the non-payment or non-performance by a contracting party (for instance, a borrower, guarantor, insurer or re-insurer, counterparty in a professional transaction or issuer of a debt instrument), due to that party's insolvency, inability or lack of willingness to pay or perform, or to events or measures taken by the political or monetary authorities of a particular country (country risk). Credit risk thus encompasses default risk and country risk, but also includes migration risk which is the risk for adverse changes in credit ratings.
- Market risk in trading activities is defined as the potential negative deviation from the expected economic value of a financial instrument caused by fluctuations in market prices, eg interest rates, exchange rates, or equity or commodity prices. Market risk also covers the risk of price fluctuations in negotiable securities as a result of credit risk, country risk and liquidity risk. The interest rate,

2 https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM_RVK_pdf_risk_report_2011_EN.pdf

currency and equity risks of the non-trading positions in the banking book are all included in ALM exposure.

Market risk in non-trading activities (also known as Asset and Liability Management) is the process of managing the Group's structural exposure to market risks. These risks include interest rate risk, equity risk, real estate risk, foreign exchange risk and inflation risk.

- Liquidity risk is the risk that an organisation will be unable to meet its payment obligations as they come due, without incurring unacceptable losses. The principal objective of KBC Bank Group's liquidity management is to be able to fund such needs and to enable the core business activities of KBC Bank Group to continue to generate revenue, even under adverse circumstances.
- Operational risk is the risk of loss resulting from inadequate or failed internal procedures, people and systems or from external events. Operational risks include the risk of fraud, and legal, compliance and tax risks.

KBC Group's risk governance framework defines the responsibilities and tasks required to manage value creation and the associated risks. During 2010, KBC Group's risk management framework underwent significant changes with regard to governance and structure. The goal of these changes was to further improve KBC Group's ability to deal decisively with major economic events in the future by creating an adjusted and comprehensive integrated model that aligns all dimensions of risk, capital and value management.

Credit risk

Although a number of transactions involve credit risk, the main source of credit risk is the loan & investment portfolio of KBC Bank Group. A snapshot of this portfolio is shown in the table below.

Loan & investment portfolio:

As far as the banking activities are concerned, the main source of credit risk is the loan and investment portfolio. The loan & investment portfolio is mainly the result of what can be considered as pure, traditional lending activities. It includes all retail lending such as mortgage loans and consumer loans, all corporate lending such as (committed and uncommitted) working capital credit lines, investment credit, guarantee credit and credit derivatives (protection sold) and all non-government debt securities in the investment books of the KBC Group's bank entities. The table below excludes other credit risks, such as trading exposure (issuer risk), counterparty risk associated with interprofessional transactions, international trade finance (documentary credit, etc) and government bonds.

Loan & investment portfolio of KBC Bank Group*

	31 December 2010	31 December 2011	30 June 2012
Total loan portfolio (in billions of EUR)			
Amount granted	192	186	168
Amount outstanding	161	156	142
Loan & investment portfolio breakdown by business unit (as a per cent., of the portfolio of credit granted)			
Belgium.....	31%	34%	38%
CEE.....	18%	19%	22%
Merchant banking	36%	37%	39%
Group Centre (includes planned divestments)	15%	10%	1%
Total	100%	100%	100%
Loan & investment portfolio breakdown by sector (selected sectors as a per cent. of the portfolio of credit granted)			
Real estate.....	7%	7%	7%
Electricity	2%	2.3%	2%
Aviation.....	0.3%	0.3%	0.2%
Automobile industry	2%	2.1%	2%
Impaired loans (in millions of EUR or %)			
Amount outstanding	10,928	11,205	10,378
Specific loan impairments	4,656	4,850	4,344
Portfolio-based loan impairments.....	351	341	293
Credit cost ratio, per business unit			
Belgium.....	0.15%	0.10%	0.04%
CEE.....	1.16%	1.59%	0.42%
Merchant Banking.....	1.38%	1.36%	1.38%
Group Centre (includes planned divestments)	1.17%	0.36%	0.33%
Total	0.91%	0.83%	0.59%
Non-performing (NP) loans (in millions of EUR or %)			
Amount outstanding	6,531	7,553	7,509
Specific loan impairments for NP loans.....	3,273	3,864	3,475
Non-performing ratio, per business unit.....			
Belgium.....	1.5%	1.5%	1.5%
CEE.....	5.3%	5.6%	5.6%
Merchant Banking.....	5.2%	7.8%	9.5%
Group Centre (includes planned divestments)	5.8%	5.5%	2.5%
Total	4.1%	4.9%	5.3%
Cover ratio			
Specific loan impairments for NP loans/Outstanding NP loans.....	50%	51%	46%
Idem, excluding mortgage loans.....	60%	63%	58%
Specific and portfolio-based loan impairments for performing and NP loans/outstanding NP loans	77%	69%	62%
Idem, excluding mortgage loans.....	96%	89%	83%

* Also at 31 March 2011 including Centea

The normal loan portfolio is split into internal rating classes ranging from 1 (lowest risk) to 9 (highest risk) for the PD (probability of default). An impaired loan is assigned an internal rating ranging from PD 10 to PD 12. PD class 12 is assigned when either one of the obligor's credit facilities is terminated by the bank, or when a court order is passed instructing repossession of the collateral. Class 11 groups obligors that are more

than 90 days past due (in arrears or overdrawn), but that do not meet PD 12 criteria. PD class 10 is assigned to obligors for which there is reason to believe that they are unlikely to pay (on time), yet are still performing and do not meet the criteria for classification as PD 11 or PD 12. In respect of these impaired loans (PD 10 to PD 12), specific loan impairments are recorded under the net present value of the recoverable amount. In addition, a portfolio-based impairment for credit in PD classes 1 to 9 is recognised (based on a formula).

The non-performing ratio is defined as the amount outstanding of non-performing loans (PD 11 and PD 12) divided by the total outstanding loan portfolio. The credit cost ratio is defined as net changes in specific and portfolio-based impairment for credit risks divided by the average outstanding loan portfolio.

Other credit risks:

As mentioned above, the loan portfolio clearly constitutes the main source of credit risk for the KBC Bank Group. However, a number of activities that are excluded from the credit portfolio figures also contain an element of credit risk, such as short-term commercial exposure (this activity involves export or import finance (documentary credit, pre-export and post-import finance, etc) and only entails exposure to financial institutions. Risks associated with this activity are managed by setting limits per financial institution and per country or group of countries), the counterparty risk of inter-professional transactions (refers to placements and the pre-settlement risk of derivatives), trading book securities – issuer risk (refers to the potential loss on default by the issuer of the trading securities) and the government securities in the investment portfolio of banking entities. Information on these risks can be found in the 2011 annual report of KBC Bank.

Structured credit exposure:

In relation to so-called structured credit products, more information is available in the 2011 annual report of KBC Bank.

Structured credit exposure (CDOs and other ABS), 30 June 2012

In the past, KBC Group acted as an *originator* of structured credit transactions and also *invested* in such structured credit products itself.

KBC Group (via its subsidiary KBC Financial Products) acted as an originator when structuring CDO (collateralized debt obligation) deals (based on third-party assets with no sponsoring role for KBC Group) for itself or for third party investors. For several transactions, protection was bought from credit insurers, mainly MBIA, a US monoline insurer ('hedged CDO-linked exposure' in the table).

KBC Group invested in structured credit products, both in CDOs (notes and super senior tranches), largely those originated by the KBC Group itself ('unhedged CDO exposure' in the table) and in other ABS ('other ABS' in the table). The main objective at that time was to differentiate risk and to enhance the yield for the re-investment of the insurance reserves and bank deposits it held in surplus of its loans.

In billions of EUR – 30 June 2012

KBC Group's investments in structured credit products (CDOs and other ABS)*	
Total nominal amount	17.9
<i>o/w hedged CDO exposure</i>	10.1
<i>o/w unhedged CDO exposure</i>	5.5
<i>o/w other ABS exposure</i>	2.3
Cumulative value markdowns*	-4.8
<i>o/w value markdowns</i>	-4.0
<i>for unhedged CDO exposure</i>	-3.7
<i>for other ABS exposure</i>	-0.3
<i>o/w Credit Value Adjustment (CVA) on MBIA cover</i>	-0.7

* Note that, value adjustments to KBC Group's CDOs are accounted for via profit and loss (instead of directly via shareholders' equity), since the KBC Group's CDOs are mostly of a synthetic nature (meaning that the underlying assets are derivative products such as credit default swaps on corporate names). Their synthetic nature is also the reason why KBC Group's CDOs are not eligible for accounting reclassification under IFRS in order to neutralise their impact.

In 2011, there was a total notional reduction in KBC Group's investments in structured credit products of 6.8 billion euros, due mainly to the:

- (a) Chiswell CDO reaching maturity (-1.4 billion euros of hedged CDO exposure and -0.2 billion euros of unhedged exposure);
- (b) sale of the Avebury CDO (-0.5 billion euros of unhedged CDO exposure);
- (c) Lancaster CDO being unwound (-0.4 billion euros of hedged CDO exposure covered by Channel, and -0.1 billion euros of unhedged exposure);
- (d) early termination of the Fulham Road CDO (-1.7 billion euros of hedged exposure and -0.3 billion euros of unhedged exposure);
- (e) sale of KBC's exposure to the Wadsworth CDO (-0.5 billion euros of hedged exposure);
- (f) sale of the underlying ABS assets for the expired Aldersgate and Chiswell CDOs (-0.3 billion euros); and
- (g) sale of impaired assets in the former Atomium portfolio, along with some minor sales, amortisations and prepayments (-1.4 billion euros of other ABS and CDO exposure).

Over the first quarter of 2012, there was a total notional reduction in KBC Group's investments in structured credit products of 2.2 billion euros. The main component of this reduction was the de-risking of two CDOs (Dorset and Newcourt), resulting in a decrease of the outstanding CDO notional with 1.7 billion euros, and the approximately 500 million euros of sales and amortizations of ABSs held by KBC Group.

Over the second quarter of 2012, there was a total notional reduction of 0.3 billion euros. The reduction of 0.3 billion euros is attributable to sales and repayments (on other ABS exposures).

Since the inception, the outstanding unhedged CDO positions held by KBC Group experienced net effective losses caused by claimed credit events until 9 July 2012 in the lower tranches of the CDO structure for a total amount of -2.2 billion euros. Of these, -2.0 billion euros' worth of events have been settled. These have had no further impact on P/L (profit and loss) because complete value markdowns for these CDO tranches were already absorbed in P/L in the past.

Asset-liability management (market risks in non-trading activities)

The table below shows the extent to which the value of the economic portfolio would change ("basis-point-value" or "BPV") if interest rates were to fall by ten basis points across the entire curve (negative figures indicate a decrease in the value of the portfolio). More details are available in the 2011 annual report of KBC Bank.

BPV of the ALM-book of KBC Bank Group (in millions of EUR)

Average, 1Q 2010	-63
Average, 2Q 2010	-68
Average, 3Q 2010	-69
Average, 4Q 2010	-62
<i>End of period</i>	-55
<i>Maximum in period</i>	-69
<i>Minimum in period</i>	-55
Average, 1Q 2011	-61
Average, 2Q 2011	-62
Average, 3Q 2011	-58
Average, 4Q 2011	-45
<i>End of period</i>	-40
<i>Maximum in period</i>	-65
<i>Minimum in period</i>	-40

Average, 1Q 2012	-57
<i>End of period</i>	-55
<i>Maximum in period</i>	-61
<i>Minimum in period</i>	-54
Average, 2Q 2012	-50
<i>End of period</i>	-50
<i>Maximum in period</i>	-52
<i>Minimum in period</i>	-49

Market risk management

As already stated before, KBC Bank Group has a number of money and debt capital market dealing rooms in Western and Central and Eastern Europe and Asia, though the dealing room in Brussels accounts for the majority of the limits and risks.

KBC Group continued to divest trading activities in its subsidiaries by, inter alia, selling KBL EPB, continuing to wind down the remaining business lines at KBC Financial Products, and selling or unwinding selected ABS and CDO assets.

The table below shows the Historical Value-at-Risk (HVAR; 99% confidence interval, one-day holding period, historical simulation) for KBC Bank Group's dealing rooms on the money and capital markets, and for KBC Financial Products. More details are available in the 2011 annual report of KBC Bank.

Market risk HVAR (One-day holding period, in millions of EUR)

	KBC Bank Group^{1,2}	KBC Financial Products³
Average, 1Q 2010	6	9
Average, 2Q 2010	8	9
Average, 3Q 2010	6	8
Average, 4Q 2010	5	8
<i>End of period</i>	4	7
<i>Maximum in period</i>	15	13
<i>Minimum in period</i>	4	6
Average, 1Q 2011	4	6
Average, 2Q 2011	4	5
Average, 3Q 2011	4	8
Average, 4Q 2011	8	3
<i>End of period</i>	9	6
<i>Maximum in period</i>	10	11
<i>Minimum in period</i>	3	1
Average, 1Q 2012	10	5
<i>End of period</i>	10	1
<i>Maximum in period</i>	11	8
<i>Minimum in period</i>	9	1
Average, 2Q 2012	11	1
<i>End of period</i>	11	1
<i>Maximum in period</i>	12	1
<i>Minimum in period</i>	10	1

1. Excluding 'specific interest rate risk' (measured using other techniques) and swap basis risk.
2. Integrated HVAR, excluding KBL EPB from 2010 on.
3. Excluding the Avebury CDO and Fund Derivatives business line.

Market risk SVAR (Ten-day holding period, in millions of EUR)¹

	KBC Bank Group	KBC Financial Products
Average, 1Q 2011	–	–
Average, 2Q 2011	–	–
Average, 3Q 2011	–	–
Average, 4Q 2011	46	14
<i>End of period</i>	36	17
<i>Maximum in period</i>	60	19
<i>Minimum in period</i>	24	11
Average, 1Q 2012 ²	44	14
<i>End of period</i>	42	5
<i>Maximum in period</i>	48	20
<i>Minimum in period</i>	40	5
Average, 2Q 2012	47	4
<i>End of period</i>	48	4
<i>Maximum in period</i>	58	5
<i>Minimum in period</i>	37	3

1. SVAR (Stressed VAR) calculated only as of the fourth quarter of 2011. Unaudited.

2. SVAR figures for 1Q are based on a 60 day window.

STAFF

In 2011, KBC Bank Group had, on average on a consolidated basis, about 38,000 employees (full time or equivalent), the majority of whom were located in Belgium (largely in KBC Bank) and Central and Eastern Europe. In addition to talks at works council meetings and at meetings with union representatives and with other consultative bodies, KBC Bank Group also works closely in other areas with employee associations. There are various collective labour agreements in force.

BANKING SUPERVISION AND REGULATION

Introduction

KBC Bank, a credit institution governed by the laws of Belgium, is subject to detailed and comprehensive regulation in Belgium, and is supervised by the NBB, the Belgian central bank, acting as the supervisory authority for prudential supervision of financial institutions. Since the implementation on 1 April 2011 of the “Twin Peaks Act”, the powers relating to prudential supervision have been transferred from the Banking, Finance and Insurance Commission (CBFA) to the NBB.

The remaining supervisory powers previously exercised by the CBFA are now exercised by the Financial Services and Markets Authority (FSMA). This autonomous public agency is in charge of supervision with regard to conduct of business rules for financial institutions and market supervision.

EU directives have had and will continue to have a significant impact on the regulation of the banking business in the EU, as such directives are implemented through legislation adopted within each Member State, including Belgium. The general objective of these EU directives is to promote the realisation of a unified internal market and to improve standards of prudential supervision and market efficiency through harmonisation of core regulatory standards and mutual recognition among EU Member States of regulatory supervision and, in particular, licensing.

Supervision and regulation in Belgium

The banking regime in Belgium is governed by the Law on the Legal Status and Supervision of Credit Institutions of 22 March 1993 and its subsequent modifications (the **Credit Institutions Supervision Law**).

The Credit Institutions Supervision Law, among other things, implements the European legislation, as coordinated by EC Directive 2006/48/EC of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (the **Capital Requirements Directive**) and by EC Directive 2006/49/EC of 14 June 2006 on the capital adequacy of investment firms and credit institutions (the **Capital Adequacy Directive**). It sets forth the conditions under which credit institutions may operate in Belgium and defines the regulatory and supervisory powers of the NBB. The main objective of the Credit Institutions Supervision Law is to protect public savings and the stability of the Belgian banking system in general.

Supervision of credit institutions

All Belgian credit institutions must obtain a license from the NBB before they may commence operations. In order to obtain a license and maintain it, each credit institution must fulfil numerous conditions, including certain minimum paid-up capital requirements. In addition, any shareholder holding 10% or more (directly or indirectly, alone, together with affiliated persons or in concert with third parties) of the capital or the voting rights of the institution must be of “fit and proper” character to ensure proper and prudent management of the credit institution. The NBB therefore requires the disclosure of the identity and participation of any shareholder with a 10% or greater capital or voting interest. If the NBB considers that the participation of a shareholder in a credit institution jeopardizes its sound and prudent management, it may suspend the voting rights attached to this participation and, if necessary, request that the shareholder transfers to a third party its participation in the credit institution. Prior notification to and non-opposition by the NBB is required each time a person intends to acquire shares in a credit institution, resulting either in the direct or indirect ownership of a qualified holding of the capital or voting rights (ie 10% or more), or in an increase of such qualified holding thereby attaining or surpassing 20%, 30% or 50%, or when the credit institution would become his subsidiary. Furthermore, a shareholder who wishes to directly or indirectly sell his participation or a part thereof, which would result in his shareholding dropping below any of the above-mentioned thresholds, must notify the NBB thereof. The Belgian credit institution itself is obliged to notify the NBB of any such transfer when it becomes aware thereof. Moreover, every shareholder acquiring, decreasing or increasing its holding (directly or indirectly, alone, together with affiliated persons or in concert with third parties) to 5% or more of voting rights or capital without reaching the qualifying holding threshold of 10%, must notify the NBB thereof within ten working days.

The Credit Institutions Supervision Law requires credit institutions to provide detailed periodic financial information to the NBB and, under certain circumstances, the FSMA. The NBB also supervises the enforcement of laws and regulations with respect to the accounting principles applicable to credit institutions. The NBB sets the minimum capital adequacy ratios applicable to credit institutions. The NBB may also set other ratios, for example, with respect to the liquidity and gearing of credit institutions. It also sets the standards regarding solvency, liquidity, risk concentration and other limitations applicable to credit institutions. Pursuant to the Credit Institutions Supervision Law, the NBB may, in order to exercise its prudential supervision, require that all information with respect to the organization, the functioning, the position and the transactions of a credit institution be provided to it. Further, the NBB supervises, among other things, the management structure, the administrative organization, the accounting and the internal control mechanisms of a credit institution. The NBB may supplement these communications and controls by on-site inspections. The NBB also exercises its comprehensive supervision of credit institutions through Statutory Auditors who co-operate with the NBB in its prudential supervision. A credit institution selects its Statutory Auditor from the list of auditors or audit firms accredited by the NBB. Within the context of the European System of Central Banks, the NBB issues certain recommendations regarding monetary controls.

If the NBB finds that a credit institution is not operating in accordance with the provisions of the Credit Institutions Supervision Law, that its management policy or its financial position is likely to prevent it from honouring its commitments, that it does not provide sufficient guarantees for its solvency, liquidity or profitability or that its management structure, administrative and accounting procedures or internal control systems present serious deficiencies, it will set a deadline by which the situation must be rectified. If the situation has not been rectified by the deadline, the NBB has the power to appoint a special commissioner, to impose additional requirements regarding solvency, liquidity, risk concentration and other limitations, to suspend or prohibit all or part of the credit institution’s activities (including a partial or complete suspension of the execution of current contracts), to order the disposal of all or part of the credit institution’s

shareholdings, to impose a replacement of the directors, and finally, to revoke the license of the credit institution. In urgent situations the NBB may even impose such measures immediately without regard to the deadline mentioned above. Furthermore, if the circumstances as described in the previous paragraph are likely to impact the stability of the Belgian or international financial system, every act of disposal regarding the credit institution can be taken by Royal Decree, including the sale, transfer or contribution with regard to any or all assets, liabilities or parts, or the shares of the credit institution. Such measures will not alter or end any contracts between the credit institution and a third party. Similar measures can be taken if the credit institution violates the conduct of business rules and thereby impairs the Belgian or international financial system.

Bank governance

Belgian law and regulatory practices make a fundamental distinction between the management of banking activities, which is within the competence of the Executive Committee, and the supervision of management and the definition of the credit institution's general policy, which is entrusted to the Board of Directors. In a circular, the NBB recommends the implementation of this distinction (the **Circular**). The Circular also contains other recommendations to assure the autonomy of the banking function and the proper governance of the credit institution.

As required by the CBFA (now the NBB), KBC Bank has drafted an internal governance group memorandum (the **Governance Memorandum**), which sums up the main characteristics of its policy structure. The policy of a credit institution must meet the principles set out in the Circular. The Governance Memorandum was approved by the Board of Directors of KBC Bank and KBC Group and submitted for approval to the CBFA in 2008. An update to the Governance Memorandum was approved by the Board of Directors of KBC Group and also submitted for approval to the CBFA in 2010. A third update is currently underway and will subsequently be submitted for approval to the NBB.

Pursuant to the Credit Institutions Supervision Law, the members of the Executive Committee need to have the required professional reliability and appropriate experience and the other managers of a credit institution need to have the required expertise and appropriate experience.

Solvency supervision

Capital requirements and capital adequacy ratios are provided for in the Belgian Prudential Supervisor's Regulation on Own Funds of 15 November 2011 (the **Regulation on Own Funds**), transposing the Basel II-related provisions of the Capital Requirements Directive and the Capital Adequacy Directive. The payment of dividends by Belgian credit institutions is not limited by Belgian banking regulations, except indirectly through capital adequacy and solvency requirements, and is further limited by the general provisions of Belgian company law. The Regulation on Own Funds requires that the solvency of Belgian credit institutions be measured by a ratio that serves as the basis for the calculation of the minimum required capital. This capital requirement is principally determined by the degree of credit risk that is inherent in each item of the balance sheet and in each off-balance-sheet item. Each bank subject to the Regulation on Own Funds must maintain a capital adequacy ratio (the **CAD ratio**) of total capital (Tier I and Tier II) to risk-weighted assets, of no less than 8%. The CAD ratio also takes into account market risk with respect to the bank's trading book (including interest rate and foreign currency exposure) and operational risk in the calculation of the weighted risk. The CAD ratio may increase to cover temporary large exposures that exceed the exposure limit described below.

Solvency is also measured by the gearing ratio, which compares shareholders' equity to debt to third parties, as defined in applicable regulations. The Regulation on Own Funds also stipulates that in no event may the total capital of credit institutions be less than total fixed assets.

Large exposure supervision

Belgian regulations also ensure the solvency of credit institutions by imposing limits on the concentration of risk in order to limit the impact of failure on the part of a large debtor. For this purpose, credit institutions must limit the amount of risk exposure to any single counterparty to 25% of the total capital. Belgian

regulations also require that the credit institutions establish procedures to contain concentrations on economic activity sectors and geographic areas.

Equity investments

Belgian credit institutions may make equity investments in commercial and industrial companies. However, such investments (of 10% or more) may not exceed: (a) 15% of the shareholders' equity of the credit institution on a per investment basis, or (b) 45% of the shareholders' equity of the credit institution in the aggregate.

Money laundering

Belgium has implemented Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing by adjusting an Act of 11 January 1993 (as amended from time to time). This legislation contains a preventive system imposing a number of obligations in relation to money laundering and the financing of terrorism. These obligations are related, among other things, to the identification of the client, special attention for unusual transactions, internal reporting, processing and compliance mechanisms with the appointment of a compliance officer and employee training requirements. When, after investigation, a credit or financial institution suspects money laundering to be the purpose of a transaction, it must promptly notify an independent administrative authority, the Financial Intelligence Unit. This Unit is designated to receive reports on suspicious transactions, to investigate them and, if necessary, to report to the criminal prosecutors to initiate proceedings. The Belgian Prudential Supervisor has issued guidelines for credit and financial institutions and supervises their compliance with the legislation. Belgian criminal law specifically addresses criminal offences of money-laundering (Article 505, paragraph 1, 2, 3 and 4 of the Criminal Code) and sanctions them with a jail term of a minimum of 15 days and a maximum of five years and/or a penalty of a minimum of Euro 26 and a maximum of Euro 100,000 (to be increased with the additional penalty, or – in other words – to be multiplied by six).

Consolidated supervision

KBC Bank is subject to consolidated supervision on the basis of the consolidated financial situation of the KBC Group, which covers among other things solvency as described above, pursuant to Article 49, § 4 of the Credit Institutions Supervision Law.

KBC Asset Management

As from June 2005, the status of KBC Asset Management has been changed from “investment firm” to a “management company of undertakings for collective investment in transferable securities (UCITS)” (a **UCITS-management company**). Its activities are, *inter alia*, the management of UCITS and the management of portfolios of investments in accordance with mandates given by investors on a discretionary, client-by-client basis. KBC Asset Management is subject to detailed, comprehensive regulation in Belgium, supervised by the FSMA.

The UCITS-management company regime in Belgium is governed by the “Law on certain forms of collective management of investment portfolios” of 3 August 2012 (**Law of 3 August 2012**). The Law of 3 August 2012 implements European Directive 2009/65/EC of 13 July 2009 relating to UCITS, Directive 2010/78/EC of 24 November 2010, Directive 2010/43/EC and Directive 2010/44/EC. This Law of 3 August 2012 regulates management companies and sets forth the conditions under which UCITS-management companies may operate in Belgium; furthermore, it defines the regulatory and supervisory powers of the FSMA.

The regulatory framework concerning supervision on UCITS-management companies is mostly similar to the regulation applicable to investment firms. The Law of 3 August 2012 contains, *inter alia*, the following principles:

- certain minimum paid-up capital requirements and rules relating to changes affecting capital structure;

- obligation for management companies to carry out their activities in the interests of their clients or of the UCITS they manage (eg creation of Chinese walls);
- obligation to provide, on a periodical basis, a detailed financial statement to the FSMA;
- supervision by the FSMA; and
- subjection to the control of Statutory Auditors.

CAPITAL TRANSACTIONS AND GUARANTEE AGREEMENTS WITH THE GOVERNMENT IN 2008 AND 2009

In order to maintain its capital base at a sufficiently high level, KBC Group in 2008 and 2009 issued Euro 3.5 billion worth of capital securities to each of the Belgian State and the Flemish Region. In addition it was agreed with the Belgian State that it provide a guarantee relating to (originally) Euro 20 billion of CDO and MBIA-related risk.

Euro 7 billion core capital securities subscribed by the Belgian State and the Flemish Region of Belgium

Since the end of 2008, KBC Group has issued Euro 7 billion of perpetual, non-transferable core-capital instruments with no voting rights, which rank equally with ordinary shares upon liquidation, to the Belgian State (the *Federale Participatie- en Investeringsmaatschappij*) and the Flemish Region of Belgium (Euro 3.5 billion each). The transaction with the Belgian State was concluded in December 2008 and the transaction with the Flemish Region of Belgium was closed in July 2009. KBC Group has used the proceeds of these transactions to strengthen the core capital of its banking activities by in total Euro 5.5 billion via ordinary capital increases in KBC Bank and to increase the solvency margin of its insurance activities by Euro 1.5 billion (via ordinary capital increases in KBC Insurance NV). The other features of these transactions are described in the 2011 annual report of KBC Bank.

On 2 January 2012, KBC Group repaid a first EUR 0.5 billion (plus a 15% penalty) to the Belgian State. KBC Group's main objective in this respect is to implement the EU Plan approved by the European Commission within the agreed timeframe and to repay the Belgian authorities in a timely manner.

Guarantee Agreement relating to (originally) Euro 20 billion of CDO and MBIA-related risk

In May 2009, KBC Group reached an agreement with the Belgian State regarding a guarantee arrangement for a substantial part of its structured credit exposure. In brief and simplified, the guarantee relates to an original notional amount of Euro 20 billion (for the whole KBC Group), comprising a notional amount of Euro 5.5 billion of super senior CDO investments and Euro 14.4 billion of counterparty risk on MBIA (the US monoline insurer). For payment of a fee, a guarantee from the State was bought covering 90% of the default risk beyond a set first loss. The original figures have meanwhile changed (due to a decrease in CDO-exposure); this is reflected in the structure of the guarantee transaction below ('currently' meaning as at end August 2012). In brief, the guarantee transaction is structured as follows:

- first tranche of Euro 3.2 billion (currently Euro 1.7 billion): credit losses to be borne by KBC Group;
- second tranche of Euro 2 billion (currently Euro 1.5 billion): credit losses to be borne by the KBC Group. KBC Group can ask the Belgian State to subscribe to new KBC Group shares at market value, for an amount equalling 90% of the loss in this tranche (10% of the risk to be retained by KBC Group); and
- third tranche of Euro 14.8 billion (currently Euro 9.0 billion): credit losses of 90% to be compensated for by the Belgian State in cash (10% of the loss to be retained by KBC Group).

Note that the CDO portfolio consists of several CDOs; the guarantee structure applies to each CDO; the mentioned figures refer to the sum of all CDOs covered by the plan. As a result, the potential negative impact from the MBIA- and CDO-exposure is significantly reduced.

MATERIAL CONTRACTS

Except as stated below, KBC Bank has not entered into any material contracts outside the ordinary course of its business which could result in any member of KBC Bank Group being under an obligation or entitlement that is material to KBC Bank's ability to meet its obligations to Covered Bondholders.

KBC Group has concluded certain transactions with the Belgian State and the Regional Flemish government in order to strengthen capital and to become credit protection for a large part of KBC Group's structured credit exposure. As summarised in the paragraph above ("*Capital Transactions and Guarantee Agreements with the Government in 2008 and 2009*").

RECENT EVENTS

Detailed information is set out in KBC Group's and KBC Bank's press releases and financial reports, all of which are available on www.kbc.com. For the avoidance of doubt, the information available on the KBC Group website, www.kbc.com, shall not be incorporated by reference in, or form part of, this prospectus.

KBC Bank 1H2012 consolidated result (unaudited):

KBC Bank ended the first six months of 2012³ (1H2012) with a consolidated net result according to IFRS of EUR-865 million, compared with EUR+911 million in the first six months of 2011 (1H2011). The 'underlying' net result for 1H2012 (ie excluding exceptional and non-operating items, see below) came to +562 million, compared to EURO+861 million in 1H2011.

The exceptional and non-operating items, which impacted the IFRS result for 1H2012 and which were excluded in the underlying figures, totalled EUR-1.4 billion euros after tax. They mainly consisted of:

- Impairment charges for remaining divestments (EUR-1.1 billion after tax). On the basis of the progress made in the respective divestment processes, a thorough assessment was made of the value of the businesses of Absolut Bank (Russia), NLB (Slovenia), KBC Bank Deutschland (Germany) and Antwerpse Diamantbank (Belgium). Given KBC Group's determination to continue with the divestments, it has decided to reclassify three of these businesses under IFRS 5 and record impairment charges for the divestment files. The impact of these charges is EUR 1.1 billion, after tax. Given that impairment is largely related to goodwill, the impact on regulatory capital is substantially lower at EUR 0.6 billion. This negative capital impact will be reversed entirely at the time these divestments are closed, mainly through the release of risk-weighted assets (RWAs).
- Valuation of own debt (EUR-0.3 billion, after tax). The improvement in the credit spread of KBC Bank debt between year-end 2011 and the end of June 2012 resulted in a negative marked-to-market adjustment of EUR 0.3 billion.

The main special elements that impacted both the IFRS and underlying results in 1H2012 were:

- Greece. As a result of the exchange offer of Greek bonds (PSI debt restructuring), KBC Bank recorded an additional and final negative result of EUR 25 million (pre-tax) on its Greek government bond portfolio. KBC Bank also recorded an additional charge of EUR 56 million (pre-tax) for the 5/5/5 bonds (repurchase on a voluntary basis of KBC IFIMA 5/5/5 and KBC Group 5/5/5 bonds sold to retail customers – see KBC Bank NV annual report of 2011 for more information).
- Ireland. Recent economic indicators point towards resilience in Irish exports, continuing strength in the pipeline of foreign direct investment and progress in reducing the deficit in public finances. These developments have been reflected in continuing positive assessments by the EU/IMF. While residential mortgage arrears continue to deteriorate, the pace of deterioration has slowed markedly compared to 2011, which is also positively impacting non-performing loan trends. There are tentative early signs of house prices stabilising, but local confidence remains fragile. Commercial collateral values continue to suffer as all Irish banks deleverage in an illiquid market. As a consequence, a loan

3 https://multimediafiles.kbcgroup.eu/ng/published/KBCCOM/PDF/COM_IT_pdf_halfjaarverslag_2012_bank_EN.pdf

loss provision of EUR 331 million (pre-tax) was recorded in 1H2012. KBC estimates that full-year impairment charges at KBC Ireland will end up between EUR 500 and EUR 600 million.

Business highlights for 1H2012:

- Further steps forward in implementing the Strategic Plan. In Poland, KBC Bank signed an investment agreement with Banco Santander to combine their Polish subsidiaries, Kredyt Bank and Bank Zachodni WBK. KBC Private Equity sold its participation in Dynaco, KBC Asset Management concluded the sale of its 49% stake in KBC Goldstate (China) to Value Partners Ltd, and KBC Lease sold KBC Autolease Polska to Business Lease Group. At the end of July, KBC Bank sold agiel (consumer finance business in Poland). Moreover, KBC Bank decided to record impairment charges for the remaining divestment files (see above).
- Further reduction in the volatility of results, due in part to reducing the exposure to CDOs and ABS by roughly EUR 1.7 billion euros and scaling back the exposure to bonds issued by Southern European governments by EUR 1.4 billion euros in 1H2012.
- Focus firmly remains on catering for KBC Bank's customer base in its core markets in Belgium and Central and Eastern Europe.

Financial highlights for 1H2012 (compared to 1H2011):

- Good commercial results, surpassed by impairment charges recorded on the remaining divestments, leading to a negative reported result under IFRS.
- Year-on-year decrease in net interest income, due in part to divestments, a lower reinvestment yield and higher senior debt costs.
- Good growth of loan and deposit volumes in the Belgium and Central and Eastern Europe business units.
- Net fee and commission income slightly down year-on-year.
- Underlying cost/income ratio of 58% year-to-date.
- Credit cost ratio at a low 0.59% year-to-date, almost exclusively accounted for by Ireland. Excluding Ireland, the ratio stands at 0.18%.
- Strong liquidity position, with an excellent loan-to-deposit ratio of 83%.
- Solvency: continued strong capital base: *pro forma* tier-1 ratio – including the effect of divestments for which an agreement has been signed to date (Kredyt Bank) – at approximately 12.9% (Basel II).

More detail can be found in KBC Bank's Half-Year Report 1H2012, available on www.kbc.com.

TREND INFORMATION

Following the surprisingly sharp downturn in the Belgian economy prior to the summer of 2012, KBC Bank has downgraded its growth forecast for the Belgian economy to -0.1% in 2012. Nevertheless, the European Central Bank's OMT (Outright Monetary Transactions) programme significantly reduces the risk of a further weakening of the economy into a recession, but on the contrary raises the probability of the scenario in which growth in the developed economies will recover (though will remain moderate for an extended period of time), while growth in the Emerging Markets, particularly in China remains more resilient, avoiding a hard landing. KBC Bank's Central European home markets (Czech Republic, Slovak Republic, Hungary and Bulgaria), will benefit from this stronger growth in the euro area – especially in Germany – allowing a recovery from the current recession environment.

MANAGEMENT OF KBC BANK

The Board of Directors of KBC Bank has the powers to perform everything that is necessary or useful to achieve the object of KBC Bank, with exception of those powers of which, pursuant to the law and the Articles of Association, solely another body is empowered to perform.

The corporate objects of KBC Bank are set out in Article 2 of its Articles of Association. They include the execution of all banking operations in the widest sense, as well as the exercise of all other activities which banks are or shall be permitted to pursue and all acts that contribute directly or indirectly thereto.

KBC Bank complies with the laws and regulations of Belgium regarding corporate governance, to the extent these laws and regulations apply to KBC Bank.

Pursuant to Article 26 of the Act of 22 March 1993 on the legal status and supervision of credit institutions, and Article 524bis of the Belgian Company Code, the Board of Directors of KBC Bank has conferred powers on the Executive Committee to perform the acts referred to in Article 522 of the Belgian Company Code and Article 18 of the Articles of Association of KBC Bank. However, this transfer of powers relates neither to the definition of general policy, nor to the powers which are reserved to the Board of Directors by the other provisions of the Belgian Company Code. The Board of Directors is responsible for the supervision of the Executive Committee. There are no potential conflicts of interest between the duties to KBC Bank of the Members of the Board of Directors of KBC Bank detailed below and their private interests or other duties.

Members of the Board of Directors of KBC Bank are as follows:

Name and business address	Position	Expiry date of current term of office	External offices
LEYSEN Thomas Dennenlaan 9a Antwerpen 2020	Chairman	2015	Chairman of the Board of Directors of Umicore NV Member of Supervisory Board Bank Metzler seel. Sohn & Co Chairman of the Board of Directors of Corelio NV Director of De Vijver NV Executive Director of Mediacore NV Executive Director of Tradicor NV Executive Director of Booischoot NV Chairman of the Board of Directors of KBC Verzekeringen NV
DE RAYMAEKER Danny KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2012	Member of the Executive Committee of KBC Groep NV Executive Director of KBC Verzekeringen NV Chairman of the Executive Committee of KBC Global Services NV Chairman of the Supervisory Board of KBC Asset Management SA Chairman of the Supervisory Board of KBC Fund Management Limited Member of the Supervisory Board of Valuesource NV Member of the Supervisory Board of Valuesource Technologies Private Limited

<u>Name and business address</u>	<u>Position</u>	<u>Expiry date of current term of office</u>	<u>External offices</u>
			<p>Chairman of the Supervisory Board of KBC Lease Holding NV</p> <p>Chairman of the Supervisory Board of CSOB Leasing a.s. (CR)</p> <p>Chairman of the Supervisory Board of CSOB Leasing a.s. (SR)</p> <p>Chairman of the Supervisory Board of Zagiel S.A.</p> <p>Member of the Board of Directors of Romstal Leasing IFN S.A.</p> <p>Member of the Supervisory Board of Kredyt Lease SA</p>
<p>GIJSENS Lucien KBC Bank NV Havenlaan 2 1080 Brussel</p>	Executive Director	2015	<p>Chairman of the Board of Directors of Old Broad Street Invest NV</p> <p>Member of the Executive Committee of KBC Groep NV</p> <p>Executive Director of KBC Verzekeringen NV</p> <p>Non-executive Director of KBC Bank Deutschland AG</p> <p>Non-executive Director IIB Finance Ireland</p> <p>Non-executive Director of KBC Investments Limited</p> <p>Non-executive Director of KBC Financial Holding Inc.</p> <p>Non-executive Director of KBC Financial Products UK Limited</p> <p>Non-executive Director of Mezzafinance NV</p> <p>Non-executive Director of KBC Securities NV</p> <p>Non-executive Director of KBC Private Equity NV</p> <p>Non-executive Director of KBC Financial Products Hong Kong Limited Ltd.</p> <p>Non-executive Director of KBC Alternative Investment Management Limited</p> <p>Non-executive Director of KBC Global Services NV</p> <p>Non-executive Director of KBC Bank Ireland Plc.</p> <p>Non-executive Director of Gemma Frisius-Fonds K.U. Leuven NV</p> <p>Non-executive Director of KBC Credit Investments NV</p>

Name and business address	Position	Expiry date of current term of office	External offices
HOLLOWS John KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2013	Non-executive Director of Nova Ljubljanska banka d.d. "NLB" Executive Director of KBC Verzekeringen NV Executive Director of KBC Groep NV Member of the Board of Directors of KBC Global Services NV
POPELIER Luc KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2013	Executive Director of KBC Verzekeringen NV Executive Director of KBC Groep NV Executive Director of KBC Global Services NV Non-executive Director of KBC Bank Ireland Plc. Non-executive Director of KBC Financial Products UK Limited
THIJS Johan KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2013	Non-executive Director of CBC BANQUE SA Executive Director of KBC Global Services NV Non-executive Director of Group VAB NV Executive Director of KBC Verzekeringen NV Non-executive Director Febelfin Non-executive Director of KBC Group NV Non-executive Director of FBD Holding Plc Non-executive Director of BVB Non-executive Director of VOKA Non-executive Director of Assuralia
VOLJC Marko KBC Bank NV Havenlaan 2 1080 Brussel	Executive Director	2014	Non-executive Director of K&H Bank Zrt Member of the Executive Committee of KBC Groep NV Executive Director of KBC Verzekeringen NV Non-executive Director of Commercial bank "Absolut Bank" (ZAO) Executive Director of KBC Global Services NV Executive Director of Ceskoslovenska Obchodní Banka a.s. (SR)

<u>Name and business address</u>	<u>Position</u>	<u>Expiry date of current term of office</u>	<u>External offices</u>
			<p>Non-executive Director of Československá Obchodní Banka a.s.(CR)</p> <p>Non-executive Director of CSOB Pojist'ovna a.s.</p> <p>Non-executive Director of CIBANK AD</p> <p>Non-executive Director of Kredyt Bank SA</p> <p>Non-executive Director of DZI Insurance Plc</p> <p>Non-executive Director of DZI – HEALTH INSURANCE AD</p> <p>Non-executive Director of DZI – GENERAL INSURANCE JSC</p>
DE WILDE Julien Jabekestraat 49 9230 Wetteren	Independent Director	2014	<p>Non-executive Director of Arseus</p> <p>Non-executive Director of Nyrstar NV</p> <p>Non-executive Director of Telenet Group Holding NV</p>
DEPICKERE Franky Cera Philipssite 5/10 3001 Leuven	Non-executive Director	2015	<p>Executive Director of Almancora Beheersmaatschappij NV</p> <p>Non-executive Director of Commercial bank “Absolut Bank” (ZAO)</p> <p>Executive Director of Cera cvba</p> <p>Non-executive Director of MIKO NV</p> <p>Executive Director of Cera Beheersmaatschappij NV</p> <p>Executive Director of BRS VZW</p> <p>Non-executive Director of Cera Ancora VZW</p> <p>Non-executive Director of International Raiffeisen Union e.V.</p> <p>Non-executive Director CBC BANQUE SA</p> <p>Non-executive Director of KBC Groep NV</p> <p>Non-executive Director of Almancora VZW</p> <p>Non-executive Director of Euro Pool System International BV</p> <p>Non-executive Director of KBC Verzekeringen NV</p>

Name and business address	Position	Expiry date of current term of office	External offices
DISCRY Luc Cera Philipssite 5 B 10 3001 Leuven	Non-executive Director	2014	Executive Director of Cera CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of KBC Groep NV Executive Director of De Onderlinge Ziekenkas Executive Director of Almancora Beheersmaatschappij NV Executive Director of Cera Beheersmaatschappij NV
VANTHEMSCHE Pieter MRBB Diestsevest 40 3000 Leuven	Non-executive Director	2015	Non-executive Director of Gimv-Agri+ Investment Fund Non-executive Director of KBC Groep NV Non-executive Director of M.R.B.B. cvba – Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of Agri Investment Fund CVBA Non-executive Director of BB-Patrim CVBA Director of KBC Verzekeringen NV
WITTEMANS Marc MRBB cvba Diestsevest 40 3000 Leuven	Non-executive Director	2014	Non-executive Director of KBC Groep NV Non-executive Director of Agro Services CVBA Non-executive Director of Aktiefinvest CVBA Non-executive Director of Arda Immo NV Non-executive Director of Acerta CVBA Non-executive Director of Acerta Consult CVBA Non-executive Director of SBB Accountants en Belastingconsulenten BV cvba Non-executive Director of M.R.B.B. cvba – Maatschappij voor Roerend Bezit van de Boerenbond Non-executive Director of KBL European Private Bankers SA Non-executive Director of Covalis NV Non-executive Director of KBC Verzekeringen NV Non-executive Director of Arda Immo NV

Name and business address	Position	Expiry date of current term of office	External offices
BOSTOEN Alain Coupure 126 9000 Gent	Non-executive Director	2016	Executive Director of Quatorze Juillet BVBA Delegate Director of AGROBOS NV Belgium Non-executive Director of KBC Group NV Member of the Board of Directors of KBC Verzekeringen NV Executive Director of Christeys NV Executive Director of ALGIMO NV
TYTGADT Alain Prinses Josephinelaan 7 8300 Knokke-Heis Belgium	Non-executive Director	2016	Non-executive Director of KBC Group NV Chairman of the Board of Directors of Metalunion CVBA Non-executive Director of Hallex NV Non-executive Director of Hallex Nederland BV Non-executive Director of Sloestal BV Chairman of the Board of Directors of Sinfonia Investments NV Non-executive Director of Sobemetal NV Non-executive Director of KBC Verzekeringen NV Executive Director of CENTEA NV
FALQUE Daniel Bovenbosstraat 78 3053 Haasrode Belgium	Executive Director	2016	Executive Director of CBC BANQUE SA Executive Director of KBC Verzekeringen NV Member of the Executive Committee of KBC Group NV Executive Director of KBC Asset Management NV Non-executive Director of KBC Financial Indemnity Insurance SA Non-executive Director of ADD NV Non-executive Director of KBC Group Re SA Non-executive Director of FIDEA NV Non-executive Director of Kredietcorp SA Non-executive Director of Groep VAB NV Member of the Board of Directors of BVB

Name and business address	Position	Expiry date of current term of office	External offices
DONCK Frank Floridalaan 62 1180 Ukkel Belgium	Non-executive Director	2016	Executive Director of 3D NV Non-executive Director of Iberanfra BVBA Member of the Board of Directors of Ibervest NV Non-executive Director of Ter Wyndt NV Non-executive Director of Ter Wyndt CVBA Member of the Board of Directors of Zenitel NV Non-executive Director of Aspel Slovakia sro Non-executive Director of KBC Groep NV Non-executive Director of Anchorage NV Non-executive Director of Aspel Polyform SA Executive Director of Hof Het Lindeken CVBA Executive Director of Huon & Kauri NV Executive Director of Tris Non-executive Director of KBC Group NV Non-executive Director of J. Zinner NV Non-executive Director of PinguinLutosa NV Non-executive Director of Winge Golf NV Non-executive Director of KBC Verzekeringen NV
MORLION Lode Weststraat 18 8647 Lo-Reninge Belgium	Non-executive Director	2016	Executive Director of M&D Invest NV Chairman of the Board of Directors of Cera Beheersmaatschappij NV Member of the Board of Directors Woonmaatschappij Ijzer en Zee CVBA Non-executive Director of KBC Verzekeringen NV Non-executive Director of Bedrijvencentrum Westhoek NV Non-executive Director of KBC Group NV

Name and business address	Position	Expiry date of current term of office	External offices
VLERICK Philippe Ronsevaalstraat 2 8510 Bellegem Belgium	Member of the Board of Directors	2016	Deputy Chairman of the Board of Directors of KBC Groep NV Non-executive Director of Mercurius Invest NV Member of the Board of Directors of Concordia Textiles NV Chairman of the Board of Directors of Wilton Weavers Private Ltd. Chairman of the Board of Directors of Indus Kamdhenu Fund Director of EMTHERICK NV Chairman of the Board of Directors of Lurick NV Chairman of the Board of Directors of THERICK NV Chairman of the Board of Directors of Vlerick Investeringsmaatschappij CVBA Chairman of the Board of Directors of Vlerick Vastgoed NV Chairman of the Board of Directors of Raymond Uco denim Private Ltd. Member of the Board of Directors of B.M.T. Nv Member of the Board of Directors of ETEX GROUP SA Member of the Board of Directors of IVC NV Chairman of the Board of Directors of BATIBIC NV Chairman of the Board of Directors of Vobis Finance NV Non-executive Director of Isarick NV Non-executive Director of Charick NV Chairman of the Board of Directors HIFI International SA Deputy Chairman of the Board of Directors of KBL European Private Bankers SA Managing Director of F.B.I. NV Member of the Board of Directors of Member of the Board of Directors of HAMON & CIE (INTERNATIONAL) SA Chairman of the Board of Directors of UCO NV Member of the Board of Directors KBC Verzekeringen NV

<u>Name and business address</u>	<u>Position</u>	<u>Expiry date of current term of office</u>	<u>External offices</u>
			<p>Member of the Board of Directors M.T.V. NV</p> <p>Deputy Chairman of the Board of Directors of Durabilis NV</p> <p>Managing Director of Point NV</p> <p>Managing Director of CECAN Invest Nv</p> <p>Executive Director of TESSA LIM NV</p> <p>Member of the Board of Directors of Ispahan NV</p> <p>Executive Director of Vrij & Vrank CVBA</p> <p>Executive Director of Creatio Invest NV</p> <p>Chairman of the Board of Directors of Midelco NV</p> <p>Deputy Chairman of the Board of Directors of Spector Photo Group NV</p> <p>Member of the Board of Directors of BESIX Group NV</p> <p>Member of the Board of Directors of EXMAR NV</p> <p>Chairman of the Board of Directors of VIT NV</p> <p>Chairman of the Board of Directors of Belgian International Carpet C° NV</p> <p>Member of the Board of Directors of LVD Company NV</p> <p>Deputy Chairman of the Board of Directors of CORELIO NV</p> <p>Representative of Hermes Invest NV</p> <p>Chairman of the Board of Directors of Pentahold NV</p> <p>Executive Director of CECAN NV</p>
ROUSSIS Theo Poederstraat 51 2370 Belgium	Non-executive director	2016	<p>Member of the Board of Directors of K&H Bank Zrt</p> <p>Member of the Board of Directors of Polymed Distribution FZE</p> <p>Member of the Board of Directors of Ravago Holding America, Inc.</p> <p>Member of the Board of Directors of Resinex BMY Plastik Kim.San. Ve Ticaret</p> <p>Member of the Board of Directors of Resinex UK Ltd.</p> <p>Member of the Board of Directors of Plastomark (Proprietary) Ltd.</p>

<u>Name and business address</u>	<u>Position</u>	<u>Expiry date of current term of office</u>	<u>External offices</u>
			<p>Non-executive Director of Campi Y Jove sau</p> <p>Non-executive Director of Winnco Productos Quimicos sl</p> <p>Non-executive Director of Resinex Spain sl</p> <p>Non-executive Director of Pegasus Petrochemical Asia Ltd.</p> <p>Non-executive Director of Polymed Global Group Ltd.</p> <p>Member of the Board of Directors of Ultra Plastik Boya ve Kimya</p> <p>Non-executive Director B&R NV</p> <p>Executive Director Ravago Holdings NV</p> <p>Non-executive Director of Resinex Denmark</p> <p>Member of the Board of Directors of KBC Verzekeringen NV</p> <p>Member of the Board of Directors of KBC Groep NV</p> <p>Non-executive Director of Pegasus Trading Co Ltd</p> <p>Non-executive Director of Polymed Trading FZE</p> <p>Member of the Board of Directors of Ravago Italia SPA]</p>
VAN DEN BRINCK Dolf Gijsbert Carel Raboes 19 1251 AK Laren	Non-executive director	2016	<p>Non-executive Director of Akzo Nobel</p> <p>Non-executive Director of Legal & General Nederland Nederland</p> <p>Levensverzekering Maatschappij NV</p> <p>Non-executive Director of Center Parcs Europe NV</p> <p>Non-executive Director of Elsevier Reed Finance B.V.</p> <p>Non-executive Director of Nederlandse Waterschapsbank NV</p> <p>Non-executive Director of De Heus Veevoeders B.V.</p>
VAN KERCKHOVE Ghislaine Wegvoeringstraat 62 9230 Wetteren	Non-executive director	2016	<p>Non-executive director of Almacora Beheersmaatschappij NV</p> <p>Non-executive director of Cera Beheersmaatschappij NV</p> <p>Non-executive director of KBC Groep NV</p> <p>Non-executive director of KBC Verzekeringen NV</p>

MEMBERS OF AUDIT COMMITTEE

The members of the Audit Committee of KBC Bank are:

- Julien De Wilde
- Franky Depickere
- Frank Donck
- Marc Wittemans

The Audit, Risk and Compliance Committee (the **ARC Committee**) was set up by the Board of Directors and has an advisory role. The role and remit of this Committee is defined by the Board of Directors and set out in its own Regulation. On behalf of the Board, the ARC Committee supervises the integrity and effectiveness of the internal control measures and the risk management in place, paying special attention to correct financial reporting. The ARC Committee also follows the procedures set up by KBC Bank to comply with Belgian law and other regulations. To be able to achieve this, the ARC Committee has unrestricted access to all information and may start up special investigations in all the areas for which it has responsibility. The ARC Committee evaluates its composition and operations once a year.

TAXATION

EU Savings Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the **Savings Directive**), Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Belgium

The following summary describes the principal Belgian tax considerations of acquiring, holding and selling the Covered Bonds. This information is of a general nature and does not purport to be a comprehensive description of all Belgian tax considerations that may be relevant to a decision to acquire, to hold or to dispose of the Covered Bonds. In some cases, different rules can be applicable. This summary does not describe the tax consequences for a holder of Covered Bonds that are redeemable in exchange for, or convertible into assets, of the exercise, settlement or redemption of such Covered Bonds or any tax consequences after the moment of exercise, settlement or redemption. Furthermore, this description is based on current legislation, published case law and other published guidelines and regulations as in force at the date of this document and remains subject to any future amendments, which may or may not have retroactive effect.

Each prospective holder of Covered Bonds should consult a professional adviser with respect to the tax consequences of an investment in the Covered Bonds, taking into account their own particular circumstances and the influence of each regional, local or national law.

General

For the purpose of the summary below, a Belgian resident is (a) an individual subject to Belgian personal income tax (ie, an individual who has his domicile in Belgium or has his seat of wealth in Belgium, or a person assimilated to a Belgian resident), (b) a legal entity subject to Belgian corporate income tax (ie a company that has its registered office, its main establishment, its administrative seat or its seat of management in Belgium), or (c) a legal entity subject to Belgian legal entities tax (ie an entity other than a legal entity subject to corporate income tax having its registered office, its main establishment, its administrative seat or its seat of management in Belgium).

A non-resident is a person who is not a Belgian resident. For Belgian income tax purposes, interest includes (i) periodic interest income, (ii) any amounts paid by the Issuer in excess of the issue price (upon full or partial redemption whether or not at maturity, or upon purchase by the Issuer), and (iii) in case of a sale of the Covered Bonds between interest payment dates to any third party, excluding the Issuer, the pro rata of accrued interest corresponding to the holding period.

Belgian withholding tax

General

The interest component of payments on the Covered Bonds made by or on behalf of the Issuer is as a rule subject to Belgian withholding tax, currently at a rate of 21% on the gross amount. For Belgian resident individuals, an additional levy of 4% may apply to the interest on the Covered Bonds (see below).

Belgian interest withholding tax exemption for certain holders of Dematerialised Covered Bonds (X/N clearing system of the NBB)

The holding of the Dematerialised Covered Bonds in the X/N clearing system of the NBB (the **Securities Settlement System**) permits investors to collect interest on their Dematerialised Covered Bonds free of Belgian withholding tax if and as long as at the moment of payment or attribution of interest the Dematerialised Covered Bonds are held by certain investors (the **Eligible Investors**, see below) in an exempt securities account (**X-account**) that has been opened with a financial institution that is a direct or indirect participant (a **Participant**) in the Securities Settlement System of the NBB. Euroclear and Clearstream, Luxembourg are directly or indirectly Participants for this purpose.

Holding the Dematerialised Covered Bonds through the Securities Settlement System enables Eligible Investors to receive the gross interest income on their Dematerialised Covered Bonds and to transfer the Dematerialised Covered Bonds on a gross basis.

Eligible Investors are those entities referred to in article 4 of the Belgian Royal Decree of 26 May 1994 on the deduction of withholding tax (*koninklijk besluit van 26 mei 1994 over de inhouding en de vergoeding van de roerende voorheffing/arrêté royal du 26 mai 1994 relatif à la perception et à la bonification du précompte mobilier*), which includes inter alia:

- (i) Belgian resident companies referred to in article 2, §1, 5°, b) of the Belgian Income Tax Code of 1992 (*wetboek van inkomstenbelastingen 1992/code des impôts sur les revenus 1992*) (**BITC**);
- (ii) Without prejudice to article 262, 1° and 5° of the BITC, the institutions, associations or companies referred to in article 2, §3 of the law of 9 July 1975 with respect to the control of insurance companies other than those referred to in 1° and 3°;
- (iii) Semi-governmental institutions (institutions parastatales / parastatalen) for social security or institutions equated therewith referred to in article 105, 2° of the Royal Decree of 27 August 1993 implementing the BITC (**RD/BITC**);
- (iv) Non-resident investors referred to in article 105, 5° of the RD/BITC whose holding of the Dematerialised Covered Bonds is not connected to a professional activity in Belgium;
- (v) Investment funds referred to in article 115 of the RD/BITC;
- (vi) Investors referred to in article 227, 2° of the BITC, subject to non-resident income tax (*belasting van niet inwoners/impôt des non-résidents*) in accordance with article 233 of the BITC and which have used the income generating capital for the exercise of their professional activities in Belgium;
- (vii) The Belgian State, in respect of investments which are exempt from withholding tax in accordance with article 265 of the BITC;
- (viii) Investment funds governed by foreign law (such as *fonds de placement / beleggingsfondsen*) that are an undivided estate managed by a management company for the account of the participants, provided the funds units are not publicly issued in Belgium or traded in Belgium; and
- (ix) Belgian resident companies, not referred to under (i), whose activity exclusively or principally exists of granting credits and loans.

Eligible Investors do not include, inter alia, Belgian resident individuals and Belgian non-profit organisations, other than those mentioned under (ii) and (iii) above.

Participants to the Securities Settlement System must keep the Dematerialised Covered Bonds which they hold on behalf of non-Eligible Investors in a non-exempt securities account (**N-account**). In such instance all payments of interest are subject to withholding tax, currently at a rate of 21 per cent. This withholding tax is withheld by the NBB from the interest payment and paid to the tax authorities.

Transfers of Dematerialised Covered Bonds between an X-account and an N-account give rise to certain adjustment payments on account of withholding tax:

- A transfer from an N-account (to an X-account or N-account) gives rise to the payment by the transferor non-Eligible Investor to the NBB of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- A transfer from an X-account (or N-account) to an N-account gives rise to the refund by the NBB to the transferee non-Eligible Investor of withholding tax on the accrued fraction of interest calculated from the last interest payment date up to the transfer date.
- Transfers of Dematerialised Covered Bonds between two X-accounts do not give rise to any adjustment on account of withholding tax.

When opening an X-account for the holding of Dematerialised Covered Bonds, an Eligible Investor will be required to certify its eligible status on a standard form approved by the Belgian Minister of Finance and send it to the participant to the Securities Settlement System where this account is kept. This statement needs not be periodically reissued (although Eligible Investors must update their certification should their eligible status change). Participants to the Securities Settlement System are however required to make declarations to the NBB as to the eligible status of each investor for whom they hold Dematerialised Covered Bonds in an X-account during the preceding calendar year.

These identification requirements do not apply to Dematerialised Covered Bonds held with Euroclear or Clearstream, Luxembourg acting as Participants to the Securities Settlement System, provided that they only hold X-accounts and that they are able to identify the holders for whom they hold Dematerialised Covered Bonds in such account.

Belgian interest withholding tax exemption for certain holders of Registered Covered Bonds

Payments of interest and principal by the Issuer under the Registered Covered Bonds (other than Zero Coupon Covered Bonds and other Registered Covered Bonds which provide for the capitalisation of interest) may be made without deduction of withholding tax if the following conditions provided for in either articles 107, §2, 5°, b) and 118, §1, 1° of the RD/BITC or in articles 107, §2, 8° and 118, §1, 2° of the RD/BITC, are cumulatively met:

- the Registered Covered Bonds are registered in the name of the holder of the Registered Covered Bonds with the Issuer during the entire relevant interest period;
- the holder of the Registered Covered Bonds is the legal owner (*eigenaar/propriétaire*) or usufructuary (*vruchtgebruiker/usufruiteur*) of the Registered Covered Bonds during the entire relevant interest period;
- the holder of the Registered Covered Bonds is either (A) not resident for tax purposes in Belgium and does not use the income producing assets to exercise a business or professional activity in Belgium, or (B) a financial institution or institution which is assimilated therewith, provided for in article 105, 1° of the RD/BITC or (C) a state regulated institution (*parastatale instelling/institution parastatale*) for social security, or institution which is assimilated therewith, provided for in article 105, 2° of the RD/BITC; and
- upon each interest payment, the holder of the Registered Covered Bonds must provide the Issuer with an affidavit in which it is certified that the conditions mentioned in points (ii) and (iii) are complied with.

If Belgian withholding tax was levied by the Issuer further to the non-compliance of condition (ii) above, then the transferor and/or the transferee have the right, subject to certain time limitations and provided conditions (i) and (iii) are fulfilled, to file a claim with the Belgian tax authorities to request a refund of the Belgian withholding tax on the pro rata amount of interest attributable to them.

Each holder of Registered Covered Bonds that wishes to receive interest on the Registered Covered Bonds without deduction of Belgian withholding tax pursuant to article 107, §2, 5°, b) or article 107, §2, 8° of the RD/BITC must, at least 15 days prior to each interest payment date, deliver to the Issuer the validly executed

affidavit mentioned under (iv) above. Each such holder further undertakes to inform the Issuer about any change that could affect the correctness of the affidavit. The Issuer shall be entitled to conclusively rely on the affidavit, it being understood that by signing and returning such affidavit, such holder of the Registered Covered Bonds shall have attested to the accuracy of the information set forth therein.

Belgian income tax and capital gains

Belgian resident individuals

For individuals who are Belgian residents for tax purposes, ie individuals who are subject to Belgian personal income tax (*Personenbelasting/Impôt des personnes physiques*) and who opt to submit the interest on the Covered Bonds, in addition to the 21% withholding tax, to an additional levy of 4%, the withheld taxes will fully discharge them from their personal income tax liability with respect to these interest payments. This means that they do not have to declare the interest obtained on the Covered Bonds in their personal income tax return.

For individuals who are Belgian residents for tax purposes, ie, individuals who are subject to Belgian personal income tax (*Personenbelasting/Impôt des personnes physiques*) and who do not opt to submit the interest on the Covered Bonds, in addition to the 21% withholding tax, to an additional levy of 4%, the withheld taxes do not fully discharge them from their personal income tax liability with respect to these interest payments. In such case, the interest amount on the Covered Bonds will be notified to a central contact point operated by the relevant service of the Belgian tax administration who may exchange certain information to the Belgian tax authorities, and the individuals will need to declare the interest amount in their personal income tax return. The interest amount so declared will normally be taxed at the flat rate of 21% plus local surcharges (however, the Belgian federal government has approved a draft bill which, if adopted by the legislator, would abolish such local surcharges) or at the progressive personal income tax rates plus local surcharges taking into account the taxpayer's other declared income (whichever is lower).

If the gross amount of all interest and dividend income declared and/or notified to the contact centre, exceeds €20,020 within a specific year (threshold applicable for assessment year 2013, income year 2012), the interest declared on the Covered Bonds exceeding this threshold will be subject to an additional levy of 4% in the personal income tax declaration. Certain specific categories of interest and dividends are exempt and are not taken into consideration in calculating whether the threshold has been exceeded, ie liquidation bonuses, the income from government bonds issued and subscribed between 24 November 2011 and 2 December 2011 and income not considered as taxable moveable income (including the exempt part of interest on regulated savings accounts). Some other categories of interest and dividends are exempt, but are taken into consideration in calculating whether or not the threshold has been exceeded, ie dividend income taxed at 25% and the part of interest on regulated savings accounts taxed at 15%. Interest on the Covered Bonds will be taken into account in calculating the €20,020 threshold and will be subject to the 4% additional levy if and to the extent the threshold is exceeded.

If the interest payment is declared:

- (i) the retained withholding tax; and
- (ii) if the relevant individual opted to apply the additional 4% levy, the additional levy;

may be credited against their final tax liability and any excess can be refunded.

Capital gains realised on the sale of the Covered Bonds are in principle tax exempt, unless the capital gains are realised outside the scope of the management of one's private estate or unless the capital gains qualify as interest (as defined above). Capital losses are in principle not tax deductible.

Specific tax rules apply to Belgian resident individuals who do not hold the Covered Bonds as a private investment.

Belgian resident companies

Interest on the Covered Bonds derived by Belgian corporate investors who are Belgian residents for tax purposes, ie who are subject to Belgian Corporate Income Tax (*Vennootschapsbelasting/Impôt des sociétés*) and capital gains realised on the Covered Bonds will be subject to Belgian corporate income tax of 33.99%. Capital losses are in principle deductible.

Belgian legal entities

For legal entities subject to Belgian legal entities tax (*Rechtspersonenbelasting/Impôts des personnes morales*) which have been subject to the 21% Belgian withholding tax on interest payments, such withholding tax constitutes the final taxation.

Belgian legal entities which have received interest income on Covered Bonds without deduction for or on account of Belgian withholding tax are required to declare and pay the 21% withholding tax to the Belgian tax authorities themselves.

Capital gains realised on the sale of the Covered Bonds are in principle tax exempt, unless the capital gain qualifies as interest (as defined above). Capital losses are in principle not tax deductible.

Organization for Financing Pensions

Interest and capital gains derived by Organisations for Financing Pensions in the meaning of the Law of 27 October 2006 on the activities and supervision of institutions for occupational retirement provision, are in principle exempt from Belgian corporate income tax. Capital losses are in principle not tax deductible. Subject to certain conditions, the Belgian withholding tax that has been levied can be credited against any corporate income tax due and any excess amount is in principle refundable.

Belgian non-residents

Dematerialised Covered Bonds

Covered Bondholders who are non-residents of Belgium for Belgian tax purposes and are not holding the Dematerialised Covered Bonds through a Belgian establishment and do not invest the Dematerialised Covered Bonds in the course of their Belgian professional activity will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Dematerialised Covered Bonds, provided that they qualify as Eligible Investors and hold their Covered Bonds in an X-account.

If the Dematerialised Covered Bonds are not entered into an X-account by the Eligible Investor, withholding tax on the interest is in principle applicable at the current rate of 21%, possibly reduced pursuant to a tax treaty, on the gross amount of the interest.

Registered Covered Bonds

Covered Bondholders who are non-residents of Belgium for Belgian tax purposes and are not holding the Registered Covered Bonds through a Belgian establishment and do not invest the Registered Covered Bonds in the course of their Belgian professional activity will not incur or become liable for any Belgian tax on income or capital gains by reason only of the acquisition, ownership or disposal of the Registered Covered Bonds, save, as the case may be, in the form of withholding tax.

European Directive on taxation of savings income in the form of interest payments

The EU has adopted a directive (European Council Directive 2003/48/EC) regarding the taxation of savings income (hereinafter **Savings Directive**). Under the Savings Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or other similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State (hereinafter Disclosure of Information Method).

However, for a transitional period, Luxembourg and Austria instead are required (unless during that period they elect otherwise) to operate a withholding system (hereinafter **Source Tax**) in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Savings Directive which may, if implemented, amend or broaden the scope of the requirements described above.

Individuals not resident in Belgium

Interest paid or collected through Belgium on the Covered Bonds and falling under the scope of application of the Savings Directive will be subject to the Disclosure of Information Method.

Individuals resident in Belgium

An individual resident in Belgium will be subject to the provisions of the Savings Directive, if he receives interest payments from a paying agent (within the meaning of the Savings Directive) established in another EU Member State, Switzerland, Liechtenstein, Andorra, Monaco, San Marino, Curaçao, Bonaire, Saba, Sint Maarten, Sint Eustatius (formerly the Netherlands Antilles), Aruba, Guernsey, Jersey, the Isle of Man, Montserrat, the British Virgin Islands, Anguilla, the Cayman Islands or the Turks and Caicos Islands.

If the interest received by an individual resident in Belgium has been subject to a Source Tax, such Source Tax does not liberate the Belgian individual from declaring the interest income in the personal income tax declaration. The Source Tax will be credited against the personal income tax. If the Source Tax withheld exceeds the personal income tax due, the excessive amount will be reimbursed, provided it reaches a minimum of €2.5.

Tax on stock exchange transactions

A tax on stock exchange transactions (*beurstakstaxte sur les opérations de bourse*) will be due on the purchase and sale in Belgium of the Covered Bonds on a secondary market through a professional intermediary. The rate applicable for secondary sales and purchases in Belgium through a professional intermediary is 0.09% with a maximum amount of €650 per transaction and per party. The tax is due separately from each party to any such transaction, ie the seller (transferor) and the purchaser (transferee), both collected by the professional intermediary.

However, no tax on stock exchange transactions will be payable by exempt persons acting for their own account including investors who are not Belgian residents provided they deliver an affidavit to the financial intermediary in Belgium confirming their non-resident status and certain Belgian institutional investors as defined in Article 126.1 2° of the Code of miscellaneous taxes and duties (*Code des droits et taxes divers/Wetboek diverse rechten en taksen*).

SUBSCRIPTION AND SALE

The Dealers have in a dealer programme agreement (as amended and/or supplemented and/or restated from time to time the “ Dealer Programme Agreement”) dated on or about 21 November 2012 agreed with the Issuer a basis upon which they or any of them may from time to time agree to purchase Covered Bonds. Any such agreement will extend to those matters stated under “*Form of the Covered Bonds*” and “*Terms and Conditions of the Covered Bonds*” above. In the Dealer Programme Agreement, the Issuer has agreed to reimburse the Dealers for certain of their expenses in connection with the establishment of the Programme and the issue of Covered Bonds under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Covered Bonds or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Covered Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries. None of the Issuer nor any other Dealer shall have any responsibility therefor.

None of the Issuer nor any of the Dealers represents that Covered Bonds may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

In particular (but without limiting the generality of the above), subject to any amendment or supplement which may be agreed with the Issuer in respect of the issue of any Tranche, each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, to comply with the following provisions except to the extent that, as a result of any change in, or the official interpretation of, any applicable laws and/or regulations, non-compliance would not result in any breach of the applicable laws and/or regulations.

United States

The Covered Bonds have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act and that would not result in the Issuer becoming subject to registration under the Investment Company Act of 1940, as amended, or to regulation under the Commodity Exchange Act.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that, it will not offer, sell or deliver Covered Bonds (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution as determined and certified by the relevant Dealer or, in the case of an issue of Covered Bonds on a syndicated basis, the relevant lead manager, of all Covered Bonds of the Tranche of which such Covered Bonds are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed and each further Dealer appointed under the Programme will be required to agree that it will send to each dealer to which it sells any Covered Bonds during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Covered Bonds within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Series of Covered Bonds, an offer or sale of such Covered Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Each issuance of Fixed Rate Covered Bonds or Floating Rate Covered Bonds shall be subject to such additional U.S. selling restrictions as the Issuer and the relevant Dealer or Dealers may agree as a term of the issuance and purchase of such Covered Bonds, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Relevant Member State as defined above, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**) it has not made and will not make an offer of Covered Bonds with a denomination of less than EUR 100,000 which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- in relation to any Covered Bonds which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Covered Bonds other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Covered Bonds would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (**UK FSMA**) by the Issuer;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the UK FSMA) received by it in connection with the issue or sale of any Covered Bonds in circumstances in which Section 21(1) of the UK FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and
- it has complied and will comply with all applicable provisions of the UK FSMA with respect to anything done by it in relation to any Covered Bonds in, from or otherwise involving the United Kingdom.

Spain

This Base Prospectus has not been registered with the Spanish Securities Market Regulator (*Comisión Nacional del Mercado de Valores*). Accordingly, this Base Prospectus is not intended for any public offer of Covered Bonds in Spain, as defined pursuant to Law 24/1988 and Royal Decree 1310/2005, both as amended, and any regulation issued thereunder.

Japan

The Covered Bonds have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended; the **FIEA**) and each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and sold and will not offer or sell any Covered Bonds, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

France

This Base Prospectus and any applicable Final Terms have not been prepared in the context of a public offering in France within the meaning of article L.411-1 of the French *Code Monétaire et Financier* and Title I of Book II of the *Règlement Général* of the *Autorité des Marchés Financiers* (the **AMF**) and therefore has not been approved by, registered or filed with the AMF. Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered or sold and will not offer or sell, directly or indirectly, any Covered Bonds to the public in France and it has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in France, this Base Prospectus, the applicable Final Terms or any other offering material relating to the Covered Bonds and such offers, sales and distributions have been and will be made in France only to (a) persons providing investment services relating to portfolio management for the account of third parties (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (b) when acting for their own account, qualified investors (*investisseurs qualifiés*) other than individuals, all as defined in, and in accordance with, Articles L.411-1, L.411-2, L.412-1 and D.411-1 to D.411-3 of the French *Code monétaire et financier*.

The Netherlands

The Covered Bonds may not be offered to the public in the Netherlands in reliance on Article 3(2) of the Prospectus Directive (as defined in Article 1:1 of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*) unless (a) such offer is made exclusively to persons or entities which are qualified investors as defined in the Prospectus Directive or (b) standard exemption wording is disclosed as required by Article 5:20(5) of the Dutch Financial Supervision Act (*Wet op het financieel toezicht*), provided that no such offer of Covered Bonds shall require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Zero Coupon Covered Bonds in definitive bearer form and other Covered Bonds in definitive bearer form on which interest does not become due and payable during their term but only at maturity (savings certificates or spaarbewijzen as defined in the Dutch Savings Certificates Act (*Wet inzake spaarbewijzen*; the **SCA**)) may only be transferred and accepted, directly or indirectly, within, from or into the Netherlands through the mediation of either the Issuer or a member of Euronext Amsterdam N.V. with due observance of the provisions of the SCA and its implementing regulations (which include registration requirements). No such mediation is required, however, in respect of (i) the initial issue of such Covered Bonds to the first holders thereof, (ii) the transfer and acceptance by individuals who do not act in the conduct of a profession or business, and (iii) the issue and trading of such Covered Bonds if they are physically issued outside the Netherlands and are not distributed in the Netherlands in the course of primary trading or immediately thereafter.

Republic of Italy

The offering of the Covered Bonds has not been registered pursuant to Italian securities legislation and, accordingly, each Dealer has represented and agreed and each further Dealer appointed under the Programme will be required to represent and agree that it has not offered, sold or distributed, and will not offer, sell or distribute any Covered Bonds or any copies of this Base Prospectus or of any other document relating to the Covered Bonds in the Republic of Italy, except:

- (a) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree No. 58 of 24 February 1998, as amended (the **Financial Services Act**) and Article 34-ter, first paragraph, letter (b) of CONSOB Regulation No. 11971 of 14 May 1999, as amended from time to time (Regulation No. 11971); or
- (b) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation No. 11971.

Any offer, sale or delivery of the Covered Bonds or distribution of copies of this Base Prospectus or any other document relating to the Covered Bonds in the Republic of Italy under (a) or (b) above must be:

- (i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation No. 16190 of 29 October 2007 (as amended from time to time) and Legislative Decree No. 385 of 1 September 1993, as amended (the **Banking Act**); and
- (ii) in compliance with Article 129 of the Banking Act, as amended, and the implementing guidelines of the Bank of Italy, as amended from time to time, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy; and
- (iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy or any other Italian authority.

Czech Republic

No permit for the issue of the Covered Bonds has been obtained (including the obtaining of the approval of the terms and conditions of the Covered Bonds) from the Czech National Bank under Act of the Czech Republic No. 190/2004 Coll., on Bonds (the **Bonds Act**). No approval of a prospectus has been sought or obtained from the Czech National Bank with respect to the Covered Bonds. No action has been taken to passport a prospectus approved by the competent authority of a Member State of the European Economic Area which has implemented the Prospectus Directive (each, a **Relevant Member State**) into the Czech Republic by delivery of certificate of the competent authority of the Relevant Member State to the Czech National Bank attesting that a prospectus approved by the another Relevant Member State authority has been drawn up in accordance with law of the European Union.

No action has been taken (including the obtaining of the prospectus approval from the Czech National Bank and the admission to trading on a regulated market (as defined in Section 55 of the Act of the Czech Republic No. 256/2004 Coll., on Conducting Business in the Capital Market (the **Capital Market Act**)) for the purposes of the Covered Bonds to qualify as listed securities.

Each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it has not offered or sold, and will not offer or sell, any Covered Bonds in the Czech Republic through a public offering, being – subject to several exemptions set out in the Capital Market Act (eg (a) an offer of the Covered Bonds addressed solely to qualified investors (as defined under the Capital Market Act), (b) an offer of the Covered Bonds addressed to fewer than 150 natural or legal persons per Relevant Member State, other than qualified investors, and (c) an offer of the Covered Bonds addressed to investors where the minimum permitted investment amounts at least to Euro 100,000 per investor) -any communication to a broader circle of persons containing information on the securities being offered and the terms under which they may acquire the securities and which are sufficient for the Investor to make a decision to subscribe for, or purchase, such securities.

Accordingly, any person making or intending to make any offer within the Czech Republic of Covered Bonds which are the subject of the placement contemplated in this Base Prospectus should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offer. Neither the Issuer nor the Dealers have authorised, nor do they authorise, the making of any offer of Covered Bonds through any financial intermediary, other than offers made by Dealers which constitute the final placement of Covered Bonds contemplated in this Base Prospectus.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, with the Issuer and each other Dealer that it has complied with and will comply with all the requirements of the Capital Market Act and the Bonds Act and has not taken, and will not take, any action which would result in the Covered Bonds being deemed to have been issued in the Czech Republic, the issue of the Covered Bonds being qualified as “accepting of deposits from the public” by the Issuer in the Czech Republic under Sections 2(1) and 2(2)(a) of Act of Czech Republic No. 21/1992 Coll., on Banks (the **Banks Act**) or requiring a permit, registration, filing or notification to the Czech National Bank or other authorities in the Czech Republic in respect of the Covered Bonds in accordance with the Capital Markets Act, the Bonds Act, the Banks’ Act or the practice of the Czech National Bank.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, with the Issuer and each other Dealer that it has complied with and will comply with all the laws of the Czech Republic applicable to the conduct of business in the Czech Republic (including the laws applicable to the provision of investment services (within the meaning of the Capital Market Act) in the Czech Republic) in respect of the Covered Bonds.

Poland

This Base Prospectus has not been approved by the Polish Financial Supervisory Authority (**PFSA**) nor notified (passported) to the PFSA by the CSSF in accordance with applicable procedures. Accordingly, the Covered Bonds may not be offered in the Republic of Poland (**Poland**) in a public offering, as defined in the Polish Act on Public Offerings, the Conditions Governing the Introduction of Financial Instruments to Organised Trading System and Public Companies dated 29 July 2005 (as amended) as providing information, made in any form and by any means, if such information is addressed to 100 or more people or to an unspecified addressee, about securities and conditions of their purchase, which constitute a sufficient basis to make a decision on the purchase of these securities (a **Public Offering**). Each Dealer has confirmed, and each further Dealer appointed under the Programme will be required to confirm, that it is aware that no approval has been obtained from PFSA nor such notification made and has represented, and each further Dealer appointed under the Programme will be required to represent, that it has not offered, sold or delivered and will not offer, sell or deliver the Covered Bonds in Poland in a manner defined as a Public Offering as part of their initial distribution or otherwise to residents of Poland or in Poland. Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that the acquisition and holding of the Covered Bonds by residents in Poland may be subject to restrictions imposed by Polish law (including foreign exchange regulations) and that the offers and sales of the Covered Bonds to Polish residents or within Poland in secondary trading may also be subject to restrictions.

Hong Kong

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Covered Bonds (except for Covered Bonds which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the **SFO**)) other than (a) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (b) to “professional investors” as defined in the SFO and any rules made under the SFO, or (c) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the **CO**) or which do not constitute an offer to the public within the meaning of the CO; and
- (b) it has not issued, or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Covered Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Covered Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the SFO and any rules made under the SFO.

Republic of Singapore

This Base Prospectus has not been registered as a prospectus with the Monetary Authority of Singapore, and the Covered Bonds will be offered pursuant to exemptions under the Securities and Futures Act, Chapter 289 of Singapore (the **Securities and Futures Act**). Accordingly, the Covered Bonds may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Base Prospectus or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Covered Bonds be circulated or distributed, whether directly or indirectly, to any person in the Republic of

Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or to any person pursuant to Section 275(1A) of the Securities and Futures Act and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Each of the following persons specified in Section 275 of the Securities and Futures Act which has subscribed or purchased the Covered Bonds, namely a person who is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

should note that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Covered Bonds under Section 275 of the Securities and Futures Act except:

- (a) to an institutional investor under Section 274 of the Securities and Futures Act or to a relevant person or to any person pursuant to Section 275(1) and Section 275(1A) of the Securities and Futures Act, respectively and in accordance with the conditions specified in Section 275 of the Securities and Futures Act; or
- (b) where no consideration is or will be given for the transfer; or
- (c) where the transfer is by operation of law; or
- (d) pursuant to Section 276(7) of the Securities and Futures Act.

Korea

The Covered Bonds have not been and will not be registered under the Financial Investment Services and Capital Markets Act and its subordinate decrees and regulations (collectively, the **FSCMA**). Accordingly, each Dealer has represented and agreed, and each new Dealer further appointed under the Programme will be required to represent and agree, that it has not offered, sold or delivered, directly or indirectly, in Korea or to any Korean resident (as such term is defined in the Foreign Exchange Transaction Law and its subordinate decrees and regulations (collectively, **FETL**)), except as otherwise permitted under applicable Korean laws and regulations, including the FSCMA and FETL. Furthermore, the Covered Bonds may not be resold to Korean residents unless the purchaser of the Covered Bonds complies with all applicable regulatory requirements (including but not limited to government reporting requirements under the FETL) in connection with the purchase of the Covered Bonds.

Hungary

Each Dealer has represented and agreed that if the Covered Bonds are offered in a private placement in Hungary (a) all written documentation prepared in connection with a private placement in Hungary will clearly indicate that it is a private placement (b) it will ensure that all investors receive the same information which is material or necessary to the evaluation of the Issuer's current market, economic, financial or legal situation and its expected development, including that which was discussed in any personal consultation with an investor and (c) the following standard wording will be included in all such written communication:

“Pursuant To Section 18 of Act Cxx of 2001 on the Capital Markets, this [Name Of Document] was prepared in connection with a Private Placement in Hungary.”

Slovak Republic

No approval of this Base Prospectus has been sought or obtained from the National Bank of the Slovak Republic in accordance with the Slovak Securities Act (No. 566/2001 Coll.) in respect of the Covered Bonds. No application has been filed nor has any permission been obtained for accepting, nor has any other arrangement for trading, the Covered Bonds on any public market in the Slovak Republic been made. Accordingly, each Dealer has represented and agreed that it has not offered or sold or made any other arrangement, and will not offer or sell or make any other arrangement, in respect of the Covered Bonds for their trading in the Slovak Republic, in a manner that would require the approval of this Base Prospectus by the National Bank of the Slovak Republic under the applicable laws valid in the Slovak Republic. Accordingly, any person making or intending to make any offer within the Slovak Republic of Covered Bonds which are the subject of the placement contemplated in this Base Prospectus shall only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to have a prospectus for such offer approved by the Slovak prudential authorities.

GENERAL INFORMATION

Authorisation

The establishment of the Programme and the issue of Covered Bonds have been duly authorised by resolutions of the Issuer's Executive Committee (*directiecomité / comité de direction*) dated 13 November 2012.

Listing and admission to trading of Covered Bonds on Euronext Brussels

Application has been made to the Financial Services and Markets Authority (*Autoriteit voor Financiële Diensten en Markten/Autorité des services et marchés financiers*) (the **FSMA**) in its capacity as competent authority under article 23 of the Belgian Law dated 16 June 2006 concerning the public offer of investment securities and the admission of investment securities to trading on a regulated market (the **Belgian Prospectus Law**) to approve this document as a base prospectus (the **Base Prospectus**). Application has also been made to Euronext Brussels for the Covered Bonds to be listed on Euronext Brussels. References in the Base Prospectus to the Covered Bonds being listed (and all related references) shall mean that the Covered Bonds have been listed on Euronext Brussels and admitted to trading on Euronext Brussels' regulated market. Euronext Brussels' regulated market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Documents Available

So long as any of the Covered Bonds are outstanding, copies of the following documents will be available during normal business hours at the registered office of the Issuer and from the specified office of the Domiciliary Agent (where applicable, with an English translation thereof):

- (a) the constitutional documents of the Issuer;
- (b) a copy of the Representative Appointment Agreement;
- (c) a copy of the Programme Common Terms Agreement; and
- (d) a copy of the Agency Agreement (including its Schedules).

For the period of 12 months following the date of this Base Prospectus, copies and, where appropriate, English translations of the following documents will be available on the website of KBC Group at www.kbc.com and during normal business hours at the registered office of the Issuer:

- (i) a copy of this Base Prospectus;
- (ii) the audited annual consolidated financial statements of the Issuer in respect of the financial years ended 31 December 2010 and 31 December 2011, together, in each case, with the related statutory auditors' report;
- (iii) the semi-annual financial statements of the Issuer for the half year ended 30 June 2012;
- (iv) the Extended Quarterly Report 3Q2012 of KBC Group; and
- (v) any future prospectuses, base prospectuses, information memoranda and supplements including Final Terms relating to Covered Bonds which are listed on Euronext Brussels or offered in a Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive (whether or not listed on Euronext Brussels).

Copies of each Final Terms (together with the relevant Base Prospectus) relating to Covered Bonds which are either admitted to trading on any other regulated market in the European Economic Area or offered in any other Member State of the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will be available for viewing in accordance with Article 14(2) of the Prospectus Directive and the rules and regulations of the relevant regulated market. Copies of each

Final Terms relating to any other Covered Bonds (together with the relevant Base Prospectus) will only be available for viewing by a holder of such Covered Bonds upon production of evidence satisfactory to the Issuer as to the identity of such holder.

Clearing Systems

The Covered Bonds have been accepted for clearance through the Securities Settlement System, Euroclear and Clearstream, Luxembourg. The appropriate Common Code and ISIN for each Tranche will be specified in the applicable Final Terms. If the Covered Bonds are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of the NBB is De Berlaimontlaan 14, 1000 Brussels, the address of Euroclear is 3 Boulevard du Roi Albert III, B.1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, L-1855 Luxembourg.

Conditions for Determining Price

The price and amount of Covered Bonds to be issued under the Programme will be determined by the Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been:

- (a) no significant change in the financial or trading position of the Issuer or the KBC Bank Group since 30 June 2012; and
- (b) no material adverse change in the financial position, business or prospects of the Issuer since 31 December 2011.

Litigation

KBC Bank

This report concerns material litigation to which KBC Bank or any of its companies (or certain individuals in their capacity as current or former employees or officers of KBC Bank or any of its companies) are party. It describes all claims, quantified or not, that could lead to the impairment of the company's reputation or to a sanction by an external regulator or governmental authority, or that could present a risk of criminal prosecution for the corporation, the members of the board or the management.

Although the outcome of these matters is uncertain and some of the claims concern relatively substantial amounts in damages, the management does not believe that the liabilities arising from these claims will adversely affect KBC Bank's consolidated financial position or results, given the provisions that, where necessary, have been set aside for these disputes.

Judicial inquiries and criminal proceedings

From late 1995 until early 1997, Kredietbank NV, the predecessor of KBC Bank, (**KB**) and KB Consult NV (**KB Consult**) were involved in the sale of "cash companies" to various purchasers. A "cash company" is characterised by the fact that a substantial majority of the assets consist of accounts receivable, fixed financial assets, cash and other highly liquid assets. KB Consult acted as an intermediary between the seller and the purchaser of the cash companies. The involvement of KB differed from sale to sale, but generally related to the handling of payments and the granting of loans. The transfer of a cash company is in principle a legal transaction. However, in March 1997, KB and KB Consult discovered that certain purchasers of these cash companies failed to reinvest such companies' cash in qualifying assets and to file tax returns for the cash companies they purchased in order to thereby defer the taxes owed by such companies. KB and KB Consult immediately took the necessary measures to preclude any further involvement with these parties. The activities of KB Consult were subsequently wound up.

KBC Bank and KB Consult were summoned separately or jointly to court in 28 legal actions. This resulted in 20 lawsuits of which 18 are still pending before the courts. In one lawsuit the court ruled that KB Consult was summoned as third party without cause and therefore the claim was dismissed. In another lawsuit the claim of the Belgian State was dismissed and the judgment is definite. Subsequently the provision for these cases was offset in the accounts. KB Consult was placed under suspicion by an investigating magistrate in December 2004. A provision of EUR 49.4 million (status as at 30 June 2012) has been constituted to cover the potential impact of any liability with respect to these actions.

In addition to KB Consult and KBC Bank, KBC Group was also summoned before the Chambers section of the Court of First Instance in Bruges on 25 February 2009. The charges against the aforesaid KBC entities relate only to the use of false documents. The trial was postponed several times. On 9 November 2011 a judgment ordered KBC Bank and KB Consult be prosecuted together with 21 other parties indicted of various crimes with regard to tax fraud. KBC Group was dismissed. An appeal was lodged against this dismissal by the Prosecutor and two civil parties.

In 2003, an important case of fraud perpetrated by an employee, Atilla Kulcsár, involving about Euro 140.6 million, came to light at K&H Equities in Hungary. Orders and portfolio statements of the clients were forged. Many clients suffered substantial losses in their portfolio as a result of unauthorised speculation and the misappropriation of funds. On 28 August 2008 a Budapest court sentenced Atilla Kulcsár to eight years imprisonment and a fine of 230 million forints. The court acquitted Tibor E. Rejto, former CEO of K&H Bank, who had also been charged with embezzlement as an accomplice. Other persons involved were sentenced to severe punishments.

The Public Prosecutor and all the persons which had been found guilty, filed an appeal before the Court of Appeal. On 27 May 2010, the Court of Appeal annulled the first instance court verdict and ordered a complete retrial. The new trial before the first instance court started on 1 December 2010 and is ongoing. Numerous civil claims are pending.

Most claims have already been settled, either amicably or following an arbitral decision. Appropriate provisions have been set aside for the claims still outstanding, taking into account compensation provided by an external insurer. Among these pending claims, DBI Kft. (Betonut) is the most important case, involving an initial total claimed amount of HUF 3.7 billion (approximately EUR 12.7 million) plus interest.

Other litigation

On 19 June 2000 ČSOB concluded an “Agreement on Sale of Enterprise” with another Czech bank, IPB, which had been placed under forced administration on 16 June 2000. This agreement was approved by the Czech National Bank (CNB). In connection with the acquisition by ČSOB of the Enterprise of IPB (**IPB Enterprise**), the Czech Ministry of Finance (acting on behalf of the Czech Republic) entered into an agreement with and provided a state guarantee to ČSOB, and the CNB also entered into an indemnity agreement with ČSOB.

ČSOB is party (claimant/plaintiff or defendant) to a number of civil actions that were triggered by the acquisition of the IPB Enterprise. These actions relate to alleged off-balance sheet assets and legal actions of former IPB management, various attempts to contest the take-over of IPB Enterprise by ČSOB, the rescue and restructuring of IPB Enterprise and the state aid provided in connection with the rescue and restructuring of the IPB Enterprise.

In one of these cases, ČSOB initiated arbitration proceedings in respect of the above guarantees at the International Chamber of Commerce on 13 June 2007 against the Czech Republic concerning payment of the equivalent of EUR 62 million plus interest. The Czech Republic had filed a counterclaim, provisionally estimated at the equivalent of EUR 1 billion plus interest. On 29 December 2010, an arbitral award has been issued in which ČSOB’s claim was allowed and the Czech Republic’s claim was dismissed in full. The Czech Republic filed a challenge against this award before Austrian courts only with regard to the claim awarded to ČSOB, but did not challenge the decision on its counterclaim, which has now become definite. A hearing took place in November 2011. A judgment was rendered in April 2012. The Commercial Court in Vienna

dismissed the challenge filed by the Czech Republic and the Czech Republic has confirmed that it will not file an appeal against the decision of the Commercial Court in Vienna.

Two other IPB-related claims against ČSOB were equally dismissed during the second quarter of 2012. As such all material claims against ČSOB related to the acquisition of the IPB-enterprise have been dismissed.

In March 2000, the Belgian State, Finance Department, summoned Rebeo (currently Almafin Real Estate Services) and Trustimmo, two former subsidiaries of former Almafin, currently KBC Real Estate, a Belgian subsidiary of KBC Bank, before the civil court in Brussels, together with four former directors of Broeckdal Vastgoedmaatschappij (a real estate company), for the not paying approximately EUR 16.7 million in taxes due by Broeckdal Vastgoedmaatschappij. In November 1995, this company had been converted into a cash company and sold to Mubavi België (currently BeZetVe), a subsidiary of Mubavi Nederland (a Dutch real estate investment group). According to the Belgian State, Finance Department, Mubavi België did not make real investments and failed to file proper tax returns. A criminal investigation is pending. However Broeckdal Vastgoedmaatschappij contested the tax claims and in December 2002 commenced a lawsuit before the civil court in Antwerp against the Belgian State, Finance Department.

The civil lawsuit pending in Brussels has been suspended pending a final judgment in the tax lawsuit in Antwerp. A provision of EUR 26.7 million (status as at 30 June 2012) has been reserved to cover the potential impact of liability with respect to these actions.

In July 2003, Broeckdal Vastgoedmaatschappij, Mubavi België and Mubavi Nederland summoned KBC Bank, KB Consult, Rebeo and Trustimmo before the commercial court in Brussels in order to indemnify them against all damages the former would suffer if the tax claims were approved by the court in Antwerp. In March 2005, Mubavi Nederland was declared bankrupt by the court of 's-Hertogenbosch in the Netherlands.

In November 2005, KBC Bank, KB Consult, Rebeo and Trustimmo and the four former directors of Broeckdal Vastgoedmaatschappij summoned the auditor of Broeckdal Vastgoedmaatschappij, Deloitte & Touche, before the civil court in Brussels in order to indemnify them for any amount they should be ordered to pay as a result of the aforementioned claims. In November 2008 Mubavi België (currently BeZetVe) was also declared bankrupt by the commercial court in Antwerp.

Following a proposal by the Polish Organization of Commerce and Distribution (**POHiD**) in Warsaw, the Office for Competition and Consumer Protection (**UOKiK**) instituted legal proceedings against the Polish Banks Association, VISA and MasterCard and twenty Polish banks, including Kredyt Bank S.A., issuing payment cards in Poland. On 29 December 2006, the President of the UOKiK rendered a decision by which Kredyt Bank and other banks were accused of practices restricting competition and breach of article 81 (1) of the Treaty establishing the European Community and article 5 (1) point 1, of the Competition and Consumer Protection Act, by participating in an agreement to fix the amount of interchange fees collected for transactions made using VISA and MasterCard cards in Poland.

Kredyt Bank S.A. was fined approximately PLN 12.2 million. HSBC Bank Poland S.A. (**HSBC**), based on the actions of its subsidiary Prosper Bank SA, was fined PLN 192,900, and the proceedings against it were dropped and will not be continued. Because Kredyt Bank sold the shares of Prosper Bank SA to HSBC and agreed to pay all fines imposed on HSBC for the obligations of Prosper Bank existing as of the date of the sale, Kredyt Bank will pay the fine imposed on HSBC.

With regard to the decision of the President of the UOKiK that these banks refrain from anti competitive practices, an enforcement clause has been added to prevent the banks, from the time they receive the decision, from engaging in anticompetitive practices and requiring them to cease applying agreed interchange fees.

On 12 January 2007, a complaint was filed against the decision of the President of UOKiK to add the sanction clause of immediate enforceability. On 17 January 2007 and 19 January 2007, complaints were filed on behalf of HSBC Bank Polska and Kredyt Bank against the decision of the President of UOKiK, to consider participation in the agreement on fixing the amount of interchange fees by VISA, MasterCard and the banks as anti-competitive practice.

On 18 January 2007, the President of UOKiK rendered a decision by which the banks are jointly obliged to pay POHiD PLN 157,643 as reimbursement for the cost of the proceedings. Kredyt Bank filed a complaint against the decision, considering it to be without merit.

On 25 August 2007, the Commercial Court suspended the performance of the UOKiK's decision in relation to interchange fees. On 12 November 2008 the Court of Competition Protection issued a judgment stating that the banks were not applying practices restricting competition in this matter. On 22 June 2009 UOKiK appealed and the banks submitted written arguments to the Court. During the hearing held on 22 April 2010, the appellate court reversed the ruling of the first instance court and ordered a re-examination of the case. In the first half of 2012 three hearings took place, during which participants filed procedural petitions. On 8 May 2012 the court announced its decision to suspend the procedure.

In March 2008 KBC Group, KBC Bank, KBL and Kredietrust were summoned to appear before the commercial court in Brussels by the British company Beverly Securities Limited. This company has made reference to business relations that KBC/KBL are said to have had with the Republic of South Africa almost 20 years ago, at the time of apartheid and the trade embargo recommended by the UN.

The company is seeking payment of a substantial commission linked to a business transaction totally foreign to KBC and KBL. In the past it has already tried to obtain payment of this commission from third parties through legal proceedings launched in South Africa and France, where on each occasion the case was dismissed. It is now attempting to obtain payment on the pretext of having opened an account with KBL more than 17 years ago.

Even if it is true that during this period KBC and KBL maintained business relations with South Africa, this in no way supports the allegations made in the summons. After a thorough examination carried out on the basis of the documents and archives still available, and having obtained two legal opinions from highly respected law firms, particularly in relation to the embargo, KBC and KBL are reassured of their position and of the fact that they respected all the laws applicable to them at the time.

KBC and KBL consider the complaint to be totally unjustified and they claimed damages from the plaintiff for a frivolous and vexatious action. A judgment was rendered on 26 March 2010 whereby the court considered the actions inadmissible and granted damages for the defendants. Beverly Securities Limited lodged an appeal on 2 July 2010. Written arguments have been exchanged. A court date for pleading the case has not yet been determined.

KBC Bank and subsidiaries such as K&H Bank and CSOB SK received numerous complaints about CDO notes issued by KBC Financial Products that were sold to private banking and corporate clients and which have now been downgraded. Such clients have been asking for their notes to be bought back at their original value. KBC Bank decided to examine all CDO related files with respect to private banking and retail clients on a case-by-case basis and to settle the disputes as much as possible out of court. In Belgium settlements were signed with clients in KBC Bank Private Banking and Retail, which represent 99% of the private banking and retail clients involved. In the only judicial case that is still ongoing, the court of first instance of Kortrijk ruled in favour of KBC Bank and dismissed the claim on 24 November 2011. Counterparty lodged an appeal on 12 January 2012.

As a result of complaints, some Corporate Banking files were also examined. Subsequently negotiations started in the files where a decision to propose a settlement was taken and in a limited number of files settlements were reached. Only a few lawsuits are ongoing. On 12 January 2011 the commercial court in Brussels completely dismissed the claim of a corporate client. The judgment has become final. In three other lawsuits entirely favourable judgments were rendered by the commercial court in Brussels on 28 January 2011, 5 September 2011 and 28 March 2012. However the counterparties lodged an appeal. Written arguments are being exchanged. On 14 November 2012 the commercial court in Hasselt ruled also in a case with a listed company in favour of KBC Bank. Three other cases are pending before court in the first instance.

In one case a criminal complaint was lodged against KBC Bank in France. Three representatives of KBC were interrogated by the Police Judiciaire in Paris. The inquiry is still ongoing.

In Hungary a marketing brochure was used which could be misinterpreted as a guarantee on a secondary market and contained a possibly misleading comparison with state bonds. In more than 94% of the files, a settlement has been reached. A limited number of clients started a lawsuit. Most of the lawsuits were terminated by a settlement out of court; recently three cases were settled as a result of court verdicts; few clients are still pursuing their claim before the court.

On 10 December 2009, the Hungarian Competition Authority (**HCA**) passed a resolution whereby K&H was ordered to pay a fine of HUF 40,000,000 (approximately EUR 150,000) based on the violation of the Hungarian Act on the prohibition of unfair and restrictive market practices in relation to K&H's trade in CDO bonds. The appeal filed by K&H against the HCA resolution was rejected by the Budapest Metropolitan Court. K&H Bank submitted a revision claim before the Supreme Court.

In CSOB SK a similar approach as in Belgium is followed and negotiations are ongoing. In all cases of CDO investments with Private Banking and Retail clients settlements were reached. There will be no settlement and negotiation with four institutional clients. No lawsuit in respect of CDO investments is pending.

Lazare Kaplan International Inc. (**LKI**) is a US based listed diamond company that is involved since 2008 in a serious dispute with its former business partner DD Manufacturing (**DD**), an Antwerp based diamond company belonging to Mr. Erez Daleyot. They set up a joint venture 'Gulfdiam' in Dubai. LKI alleges that it was swindled out of some USD 140 million by DD and other Daleyot entities. Both companies became entangled in a complex litigation in Belgium, both claiming that the other party is their debtor. The dispute has escalated to the degree that LKI does not only accuse the Daleyot Group of fraud, theft, money laundering etc but is now also directly involving Antwerpse Diamantbank NV (**ADB**), a subsidiary of KBC Bank, and KBC Bank by launching legal claims against ADB in Belgium (Antwerp) and against KBC Bank and ADB in New York for huge amounts (USD 500 million). This development was accelerated by the end of 2009 when ADB terminated LKI's credit facilities, in conformity with the contractual provisions and started recovery actions against LKI before the Court in Antwerp.

The actual status of both proceedings is:

Commercial Court of Antwerp: on 16 March 2010 ADB issued a summons against LKI in order to recover the monies owed to it under the terminated credit facility (approximately USD 45 million). LKB, the Belgian affiliate of LKI, recently voluntarily intervened in this proceeding and claimed an amount of USD 350 million from ADB. In turn LKI claimed an amount of USD 500 million (including the USD 350 million of LKB). The case is pending; pleadings are scheduled in March 2013. KBC is not a party in this litigation.

District Court Southern District of New York: on 23 December 2011, LKI filed a claim of USD 500 million against KBC and ADB based on the so-called RICO-act; this claim is in fact a non-cumulative duplicate of the one in Belgium. On 5 September 2012 the Court granted KBC's and ADB's motions to dismiss the case. LKI appealed this judgment. Decision on the Appeal is expected by mid 2013.

Based on the information and evidence received this far, ADB and KBC consider the claims to be without merits and, hence, consider the risk that they should pay an amount to LKI and LKB as a result of their allegations against ADB and KBC to be remote.

Statutory Auditors

The statutory auditors of the Issuer are Ernst & Young Bedrijfsrevisoren BCVBA (*erkend revisor/réviseur agréé*), represented by P. Vanderbeek and/or C. Weymeersch, with offices at De Kleetlaan 2, B-1831 Diegem Brussels. The auditors of the Issuer are members of the *Instituut der Bedrijfsrevisoren/Institut des Réviseurs d'Entreprises*. The financial statements of the Issuer for the years ended 31 December 2010 and 31 December 2011 have been audited in accordance with Belgian GAAS and resulted, in each case, in an unqualified opinion. The auditors of the Issuer have no material interest in the Issuer.

The reports of the auditors of the Issuer are included or incorporated in the form and context in which they are included or incorporated, with the consent of the auditors who have authorised the contents of that part of this Base Prospectus.

Post-issuance information

The Issuer will publish quarterly Investor Reports, which will contain information regarding the Covered Bonds and the Cover Assets, including statistics relating to the financial performance of the Cover Assets. Such reports will be available to the prospective investors in the Covered Bonds and to the Covered Bondholders at the offices of the Domiciliary Agent, on Bloomberg and on the website of KBC Group (www.kbc.com).

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Issuer and its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Covered Bonds issued under the Programme. Any such short positions could adversely affect future trading prices of Covered Bonds issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

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