Fortis Bank sa/nv

Financial report First half-year 2009

BNP PARIBAS FORTIS | The bank for a changing world

Brussels, 31 August 2009

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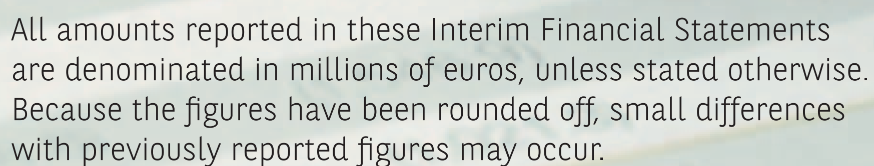

All amounts reported in these Interim Financial Statements are denominated in millions of euros, unless stated otherwise. Because the figures have been rounded off, small differences with previously reported figures may occur.

Fortis Bank SA/NV is the legal name of the company and the commercial activities are performed under the brand name BNP Paribas Fortis.

Fortis Bank refers to Fortis Bank SA/NV consolidated situation except if stated otherwise.

Introduction

This Financial Report of Fortis Bank SA/NV for the first half of 2009 includes the Interim Report of the Board of Directors, the Statement of the Board of Directors, the composition of the Board and the Consolidated Interim Financial Statements for the first half of 2009.

The Fortis Bank Consolidated Interim Financial Statements for the first half of 2009, including the 2008 comparative figures, have been prepared in accordance with IAS 34 Interim Financial Reporting, and include condensed financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement) and selected explanatory notes.
The Fortis Bank Consolidated Interim Financial Statements should be read in conjunction with the audited Fortis Bank Consolidated Financial Statements 2008, which are available from http://www.fortisbank.com.

As an issuer of listed debt instruments and in accordance with the EU Transparency Directive, Fortis Bank SA/NV is subject to obligations regarding periodic financial reporting, including half-yearly interim financial statements and an intermediate report by the Board of Directors.

Report of the Board of Directors

This section provides a synthesis of the developments in the first half of 2009 and elaborates on the following key developments:

- status of the BNP Paribas Fortis project
- results of the first half of 2009 and the financial position
- status of liquidity, solvency and integration
- principal risks and uncertainties

Launch of a promising project for the future of Fortis Bank with as commercial name BNP Paribas Fortis

After a turbulent 2008, Fortis Bank paved the way for a sound and solid future in the first half of 2009.

Right from the outset, the integration of Fortis Bank and BNP Paribas has been seen as a development project. This integration has created a unique opportunity for Belgium and Luxembourg to gain leading banking entities that have learned lessons from the crisis and have the huge advantage of being capable of satisfying clients in total security, underpinned by the know-how and scope of a major international group.

The first phase of the integration process has enabled us not only to confirm, but also to reinforce, this great ambition. We have demonstrated that Fortis Bank and BNP Paribas have the capacity to benefit from one another and that the teams really enjoy working together. We are convinced that together, we will successfully meet all the challenges of the integration.

Under the Protocol Agreements entered into on 10 October 2008 and 8 March 2009, BNP Paribas acquired a majority interest in Fortis Bank SA/NV and in BGL SA via contributions from the Belgian and Luxembourg governments.

The contributions were made on 12 and 13 May 2009, following which:

- BNP Paribas owns 74.93% of the share capital and voting rights of Fortis Bank SA/NV (which itself has a 50% interest plus one share in the share capital of BGL SA)
- the Belgian State (through Société Fédérale de Participations et d'Investissement (SFPI) / Federale Participatie- en Investeringsmaatschappij (FPIM) acting on behalf of the Belgian State) owns a blocking minority interest of 25% plus one share in Fortis Bank SA/NV and the Luxembourg State owns a blocking minority interest of 34% in BGL SA

The Protocol Agreements also included other transactions concluded on the same date as the first contribution was made:

- the acquisition by Fortis Bank SA/NV from Fortis Insurance N.V. of 25% of the share capital plus one share in Fortis Insurance Belgium SA/NV at a price of EUR 1,375 million
- the sale of part of the structured credit portfolio of Fortis Bank SA/NV to Royal Park Investments SA/NV (RPI) for a total price of EUR 11.7 billion. RPI is jointly owned by BNP Paribas (12%), the Belgian State (43%) and Fortis (45%) and partly funded by BNP Paribas (EUR 519 million of senior debt) with the remainder provided by Fortis Bank SA/NV, comprising EUR 4,891 million in super senior debt and EUR 4,668 million in senior debt, the latter being guaranteed by the Belgian government

Comments on Fortis Bank's consolidated results for the first half of 2009 and financial position

The implementation of the Protocol Agreements, and more specifically the sale of part of Fortis Bank's structured credit portfolio, impacted the financial position and the results of Fortis Bank during the first half of 2009.

Moreover, it has been decided that Fortis Bank will align, if possible and justified within the IFRS framework, its accounting policies, accounting estimates, and methodologies and parameters used in the valuation and measurement of assets and liabilities, with the policies, estimates, methodologies and parameters as applied by BNP Paribas. The objectives of this harmonisation (called "convergence") are to attain a consistent and transparent financial reporting and to avoid operational inefficiencies. The proposed changes in accounting policies have been submitted for approval to the Board of Directors of Fortis Bank and are disclosed in the financial statements.

In particular, Fortis Bank has been performing for some time in-depth analyses of changes that might be required to its valuation methods and model reserves relating to various financial instruments, driven by the fundamental changes taking place in all financial markets.

These analyses continued in the second quarter of 2009 and Fortis Bank introduced methodologies, estimates, parameters and classifications as also applied by BNP Paribas. The resulting adjustments are due to differences in valuation models applied, estimates of model reserves and market parameters (more details are included in Note 1.3, Changes in accounting policies, accounting estimates and classifications).

Continued convergence, the current development and implementation of a new industrial plan for Fortis Bank as well as shifts in the global financial and economic environment, may lead to further changes in methodoligies and accounting estimates in the coming periods.

Comments on the result attributable to shareholders in the first half of 2009

Fortis Bank realised a loss of EUR 17 million in the first half of 2009. This reported result includes two material elements, largely offsetting each other: firstly a positive impact related to the sale of part of the structured credit portfolio and secondly a negative impact from changes in methodoligies and accounting estimates. Excluding these impacts, Fortis Bank realised a net underlying profit of EUR 93 million during the first half of 2009.

Total income of EUR 3,816 million was driven by good business in the retail networks (net asset inflow in the second quarter of 2009 of EUR 2.2 billion from individual customers in the Belgian Retail) and a solid performance by the capital markets businesses. The level of impairments was EUR 791 million and remained substantial, in particular at Merchant Banking. Operating expenses were EUR 2,847 million, leading to a profit before taxation of EUR 178 million. After income tax and minority interests, the net loss attributable to shareholders was EUR 17 million at the end of the first half of 2009.

In the first half of 2008, Fortis Bank reported a net profit of EUR 1,192 million. The sale of the banking business of Fortis in the Netherlands in the last quarter of 2008 significantly impacted the scope of activities and ownership of Fortis Bank. Excluding the contribution of FBN(H) in the first half of 2008 – reported under net profit on discontinued operations – net profit amounted to EUR 676 million in 2008.

Net interest income was EUR 184 million or 9% higher than in the first half of 2008, mainly thanks to the financial margin. It benefited from lower funding costs and from the capital increases at Fortis Bank and BGL, which more than compensated for the lower volumes, essentially in deposits, and the lower yields on the investment portfolio.

Commission and fees decreased by EUR 189 million or 16% in the first half of 2009 compared with the first half of 2008, despite the positive impact of the scope change due to the integration of ABN AMRO Asset Management entities within Fortis Investments. The decrease was mainly driven by lower fees on securities brokerage and on funds under management, as the continuing turmoil in the financial markets caused lower activity and fewer transactions.

Dividends, share in result of associates and joint ventures, and other investment income amounted to EUR 106 million in the first half of 2009, down by EUR 73 million on the first half of 2008, due to lower dividends received on the equity investment portfolio, which had been almost entirely sold at the end of 2008.
Result of associates includes the contribution of AG Insurance since 12 May 2009, amounting to EUR 11 million.

Realised capital gains (losses) on investments were EUR 161 million lower in the first half of 2009 compared with the first half of 2008, mainly due to lower capital gains on government bonds and the capital gains realised on the sale of buildings in 2008. This was partly offset by lower losses on the equity investment portfolio and higher gains in the private equity portfolio in 2009.

Other realised and unrealised gains and losses declined by EUR 680 million in the first half of 2009 compared with the first half of 2008. This result was highly impacted by the sale of part of Fortis Bank's structured credit portfolio (EUR 198 million positive) and by the changes in valuation methods and model reserves of financial instruments (EUR 469 million negative). Excluding these impacts, the decline is mainly explained by the unfavourable evolution of the credit derivatives positions, a lower contribution from Investment Banking and a declining ALM result due to foreign exchange results and prepayment fees related to investment funds.
Trading results improved, mainly due to a more favourable yield curve.

Other income increased by EUR 6 million compared with the same period last year, mainly because of higher operating lease income.

Change in impairments was EUR 264 million lower in the first half of 2009 than in the first half of 2008. Both periods were heavily impacted by impairments on structured credit instruments.
The 2009 figures include reversals of impairments related to the structured credit portfolio transferred to Royal Park Investments, based on a valuation agreed in the Protocol Agreement (EUR 426 million) and due to changes in valuation methods (EUR 83 million).
In the first half-year 2008, impairments on structured credit instruments amounted to EUR 845 million compared to EUR 342 million in the first half-year 2009.
The high level of impairments in 2009, excluding the impact of the structured credit instruments, reflects the general deterioration in credit quality in the market.

Total expenses stood at EUR 2,847 million in the first half of 2009, up by 3% compared with the first half of 2008. Expenses were impacted by a scope change at Asset Management and additional provisions for medical coverage, restructuring and claims. Excluding the scope change and the one-offs mentioned above, costs were lower than last year, reflecting the impact of the implemented cost containment measures and the decrease in the number of staff.

Staff expenses were EUR 1,558 million in the first half of 2009 or 5% down on the first half of 2008. This was mainly due to a smaller number of staff as a consequence of the hiring freeze (-6% full-time equivalents), lower variable salaries, and a positive impact of the exchange rate evolution in the US, the UK and Turkey, offsetting higher average fixed salaries in line with inflation and a provision for medical coverage (EUR 72 million).

Other expenses (including depreciation and amortisation costs) increased by EUR 171 million or 19% compared with the first half of 2008, impacted by additional claim provisions, restructuring provisions at Consumer Finance Germany and the change of scope at Asset Management.
Excluding the above-mentioned elements, other expenses were lower in 2009, specifically technology costs, marketing expenses, consultancy costs and external staff costs.

Tax expenses were significantly impacted in the first half of 2009 by the write-down of deferred tax assets (DTA). Given the ongoing finalisation of the industrial plan, which has not yet led to a quantified multi-year budget, it was decided to maintain recognised DTA, net of write-downs at Fortis Bank SA/NV at the same level as at the end of 2008. This implied that the additional DTA related to the tax losses of the period had to be impaired (EUR 73 million).

Results on discontinued operations of EUR 540 million in the first half of 2008 related to the FBN(H) contribution in the first half of 2008 (EUR 516 million) and to the results of non-core Asset Management entities (EUR 24 million). No operations were considered discontinued in the first half of 2009.

Comments on the consolidated balance sheet as at 30 June 2009

The balance sheet total of Fortis Bank amounts to EUR 496 billion at 30 June 2009, a decrease of EUR 90 billion (or 15%) compared with 31 December 2008, reflecting the further de-risking of the balance sheet.
Decreases in investments, due from banks, reverse repo transactions and securities lending activities explain the decrease in total assets.

A similar pattern can be seen on the liabilities side with decreases in bank deposits, repo transactions, securities lending activities and debt certificates.

The impact of the sale of part of the structured credit portfolio to RPI and the related funding of RPI by Fortis Bank are reflected in the balance sheet as at 30 June 2009. Furthermore, loans due from Fortis Brussels were repaid prematurely (EUR 4.8 billion) and subordinated liabilities due to Fortis Brussels (EUR 5.7 billion) were reimbursed.

Assets

Cash and cash equivalents increased by EUR 15 billion or 67%, driven by the growth in short-term balances (less than three months) with central banks (EUR 2.6 billion) and other credit institutions (EUR 11 billion), as well as increases in short-term reverse repo transactions.

Assets held for trading decreased by EUR 18 billion. The decline related to the decrease in the fair value of derivatives (EUR 17 billion, a corresponding decrease is present in trading liabilities) and to a lower volume of trading securities (EUR 1 billion).

Due from banks decreased by EUR 23 billion (or 49%) following a continued ramp-down of the interbank activities mainly at Global Markets, including a decrease in reverse repo transactions of EUR 4 billion, lower bank deposits (EUR 18 billion) and a decrease in mandatory reserve deposits with central banks (EUR 1 billion).

Due from customers decreased by EUR 16 billion (or 7%) to EUR 200 billion.
Reverse repo transactions and securities lending receivables decreased by EUR 11 billion to EUR 32 billion, especially at Global Markets (EUR 9 billion) and Clearing, Funds & Custody (EUR 2 billion) following a reduction in activities.
Loans to customers decreased by EUR 5 billion or 3% to EUR 168 billion in 2009.
The loan to Royal Park Investments (EUR 9 billion) as well as the early repayment of loans due from Fortis Brussels (EUR 4.8 billion) significantly impacted these balances. Due from customers decreased by EUR 10 billion at Merchant Banking. The Retail Banking portfolio grew slightly by EUR 1 billion, especially mortgage loans originated in Belgium.

Investments decreased by EUR 11 billion (or 10%) to EUR 98 billion. The sale of part of the structured credit portfolio to Royal Park Investments, led to a EUR 10 billion decrease in the investment portfolio.

The government bond portfolio and the corporate debt securities portfolio were reduced at Global Markets (EUR 1 billion) and at ALM (EUR 5 billion). These downward evolutions were partly offset by the full consolidation of Bank van de Post / Banque de la Poste that contributed for EUR 3 billion to investments and the 25% participating interest in AG Insurance of EUR 1.375 billion.

Trade and other receivables decreased by EUR 3 billion, driven by Global Markets on the back of lower cash collateral paid to non-credit institutions.

Property, plant and equipment recorded a slight decrease of EUR 36 million, mainly due to the depreciation of IT investments.

Goodwill and other intangible assets increased by EUR 0.3 billion, which was linked to the recognition of goodwill for the Artemis subsidiary following a change in consolidation method. This entity was previously reported as assets classified as held for sale, but now consolidated as at 30 June 2009.

Assets classified as held for sale at the end of 2008 relate to non-core Asset Management entities. In the 2009 figures, these entities have either been fully consolidated or accounted for as equity associates.

Current tax assets went down by EUR 181 million compared with the end of 2008.

Deferred tax assets remained unchanged compared to 31 December 2008.

Accrued interest and other assets decreased by EUR 34 billion or 37%, driven mainly by lower balances on differences between trade date and settlement date accounting (EUR 14 billion) and lower accrued income (EUR 17 billion).

Liabilities and equity

Liabilities held for trading decreased by EUR 20 billion to EUR 66 billion. As referred to in the paragraph on the trading assets, the main driver was a change in the fair value of derivatives and lower volume of short securities sales.

Due to banks declined by EUR 36 billion or 27% to EUR 98 billion. Deposits from central banks decreased by EUR 9 billion to EUR 0.1 billion. Time deposits (EUR 9 billion) and deposits on demand with credit institutions (EUR 3 billion) declined as well. The reverse repo transactions with banks decreased by EUR 10 billion following the continued ramp-down of interbank activities, mainly at Global Markets.

Due to customers decreased by EUR 26 billion (or 12%) to EUR 191 billion.
The decrease can be mainly attributed to lower repo transactions with customers (EUR 30 billion), principally at Global Markets.
The compensating increase was driven by higher deposits at Retail Banking (EUR 5 billion) mainly in Belgium and at Private Banking (EUR 1 billion), reflecting regained confidence.
Lower deposits were recorded at Merchant Banking (EUR 3 billion), mainly owing to the continued outflow of wholesale deposits at volatile businesses like Institutional Banking, Corporate and Public Banking, which was only partly offset by growing deposits at Commercial Banking.

Debt certificates amounted to EUR 53 billion at the end of the first half of 2009, up by EUR 4 billion or (8%) compared with the end of 2008. The growth was possible thanks to a higher volume of short-term commercial paper (EUR 4 billion) and saving certificates (EUR 1.4 billion). These upward evolutions were partly offset by a decline in debt securities held at fair value (EUR 1 billion), which was mainly due to reimbursements within the EMTN programme at BGL.

Other borrowings, provisions, and **current and deferred tax liabilities** all decreased slightly.

Accrued interest and other liabilities dropped by EUR 8 billion or 13%, impacted by lower accrued interest and other expenses (EUR 16 billion), which were partly offset by higher trade date and settlement date accounting differences of EUR 8 billion. Additionally, defined benefit liabilities for post employment employee benefits, funded through the now related insurance company AG Insurance, could no longer be netted with the related plan assets and had to be treated as liabilities (EUR 1.6 billion).

Liabilities related to assets classified as held for sale in 2008 concerned liabilities of the non-core Asset Management entities formerly acquired from ABN AMRO Asset Management.

Shareholders' equity increased by EUR 2.6 billion in the first half of 2009, mainly driven by the decrease in unrealised losses on investments impacted by the sale of part of the structured credit portfolio and to the valuation of the retained part of the structured credit portfolio (EUR 2.5 billion). The increase was slightly offset by the net loss attributable to shareholders in the first half of 2009 and some adverse foreign exchange differences.

Liquidity, solvency and integration

Liquidity position

The liquidity position of Fortis Bank continued to improve in the first half-year 2009 due to confidence gradually returning in the markets and due to BNP Paribas, gaining majority control, taking away the uncertainty about the future of the bank.

Fortis Bank continued to benefit from more benign market conditions expressed in:

- increased access to wholesale funding allowing to reduce dependency on central bank financing
- Retail & Private Banking deposits showing a positive trend again in the second quarter of 2009

Fortis Bank also benefitted from the measures it is taking to improve its funding capacity and re-established liquidity buffers.

The ratio naked deposits/loans (excluding secured loans & deposits) has improved from 88% at the end of 2008 to 94% at 30 June 2009.

Solvency

Solvency remained strong. Indeed at 30 June 2009, Fortis Bank's Tier 1 capital ratio amounted to 12.1% compared to 10.7% on 31 December 2008. At 30 June 2009, the total capital ratio stood at 17.7%, well above the regulatory required minimum of 8%.

The positive evolution of the Tier 1 capital ratio can be explained by the material reduction in Risk Weighted Assets (RWA) (EUR -37 billion or 18%), off-setting the decrease of Tier 1 capital observed over the first half year of 2009 (EUR 1.6 billion). The decrease in RWA's is mainly due to the sale of part of the structured credit portfolio of Fortis Bank to Royal Park Investments. Another reason for the reduction in RWA's relates to the controlled business downsizing in selected Merchant Banking segments and a reduction in trading positions.

The decrease in Tier 1 capital is due to the deduction of 50% of the participation acquired in AG Insurance, the net result of the period and other technical elements.

Integration

Since end of May 2009, an integration process ("Processus de rapprochement") has been started aiming to deliver, between end of October and mid-November 2009, a detailed industrial plan for Fortis Bank.

The integration process articulates along several phases and aims to involve all parties whose participation is necessary for the success of the integration (i.e., BNP Paribas, Fortis Bank, BGL, the staff of these entities, representatives of their shareholders, the related Regulators and the Board of Directors).

A first phase of the integration process has been completed, which consisted in a top-down review of the activities and the definition of the key axis that will be followed in the integration process.

A second bottom-up phase has recently been started and will involve up to 3,500 people (both from Fortis Bank and BNP Paribas Group) within 350 different work groups. To be able to detail the expected efficiency improvements and future strategic development axis, we obviously have to wait for the conclusion of those numerous groups.

Principal risks and uncertainties

Fortis Bank's activities are exposed to a number of risks such as credit risk, market risk, liquidity risk and operational risk. To ensure that these risks are identified and adequately controlled and managed, the bank adheres to a number of internal control procedures and refers to a whole array of risk indicators, which are further described in Note 6, Risk Management of the Fortis Bank Annual Report 2008.

Fortis Bank is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in some foreign jurisdictions, arising in the ordinary course of its banking business and following the restructuring of Fortis Bank and Fortis Group at the end of September and beginning of October 2008, as further described in Note 22 of the Consolidated Interim Financial Report for the first half of 2009.

Brussels, 31 August 2009
The Board of Directors of Fortis Bank SA/NV

Statement of the Board of Directors

In accordance with article 13 of the Royal Decree of 14 November 2007, we confirm that, to the best of our knowledge, as at 30 June 2009:

(a) the condensed set of financial statements, prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit and loss of Fortis Bank and the undertakings included in the consolidation

(b) the interim management report includes a fair review of the development, results and position of Fortis Bank and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties with which they are confronted

Brussels, 31 August 2009
The Board of Directors of Fortis Bank SA/NV

Composition of the Board of Directors

Name	Function
DAEMS Herman	Chairman Board of Directors
CHODRON De COURCEL Georges	Vice Chairman Board of Directors
BONNAFE Jean-Laurent	Chairman Executive Board
DIERCKX Filip	Vice Chairman Executive Board
MENNICKEN Thomas	Executive Director, Member of the Executive Board
RAYNAUD Eric	Executive Director, Member of the Executive Board, C.O.O.
FOHL Camille	Executive Director, Member of the Executive Board
LAVENIR Frédéric	Director
VARENE Thierry	Director
PAPIASSE Alain	Director
COUMANS Wim	Director
WIBAUT Serge	Director
PRUVOT Jean-Paul	Director
STEPHENNE Jean	Director*
VANSTEENKISTE Luc	Director*
LAMARCHE Gérard	Director*

Accredited statutory auditors
PricewaterhouseCoopers Reviseurs d'Entreprises sccrl
Represented by Mr. JEANQUART and Mr. STEENWINCKEL

* Complies with the independence requirements as laid down in article 526ter of the Companies Code.

Consolidated interim financial statements

Consolidated balance sheet

	Note	30 June 2009	31 December 2008
Assets			
Cash and cash equivalents		37,769	22,644
Assets held for trading	*8*	70,525	88,432
Due from banks	*9*	23,930	47,043
Due from customers	*10*	199,561	215,630
Investments:	*11*		
- Held to maturity		*3,571*	*3,851*
- Available for sale		*65,337*	*101,194*
- Held at fair value through profit or loss		*2,728*	*2,828*
- Loans and Receivables		*23,448*	
- Investment property		*653*	*672*
- Associates and joint ventures		*1,833*	*436*
		97,570	108,981
Trade and other receivables		2,808	5,680
Property, plant and equipment		2,245	2,281
Goodwill and other intangible assets		2,254	1,992
Assets classified as held for sale			738
Current and deferred tax assets		2,273	2,454
Accrued interest and other assets		57,350	90,902
Total assets		**496,285**	**586,777**
Liabilities			
Liabilities held for trading		66,014	86,309
Due to banks	*12*	97,556	133,917
Due to customers	*13*	191,367	217,815
Debt certificates		53,359	49,617
Subordinated liabilities		16,098	21,932
Other borrowings		514	565
Provisions		1,262	1,331
Current and deferred tax liabilities		484	525
Accrued interest and other liabilities		51,684	59,518
Liabilities related to assets held for sale			105
Total liabilities		**478,338**	**571,634**
Shareholders' equity		14,933	12,363
Minority interests		3,014	2,780
Total equity		**17,947**	**15,143**
Total liabilities and equity		**496,285**	**586,777**

Consolidated income statement

	Note	30 June 2009	30 June 2008
Income			
Interest income	*14*	35.064	48.246
Interest expense	*15*	(32.901)	(46.267)
Net interest income		**2.163**	**1.979**
Fee and commission income	*16*	1.561	1.811
Fee and commission expense	*17*	(586)	(647)
Net fee and commission income		**975**	**1.164**
Dividend, share in result of associates and joint ventures and other investment income		106	179
Realised capital gains (losses) on investments	*18*	35	196
Other realised and unrealised gains and losses	*19*	373	1.053
Other income		164	158
Total income, net of interest expense		**3.816**	**4.729**
Change in impairments	*20*	(791)	(1.055)
Net revenues		**3.025**	**3.674**
Expenses			
Staff expenses		(1.558)	(1.636)
Depreciation and amortisation of tangible and intangible assets		(219)	(220)
Other expenses		(1.070)	(899)
Total expenses		**(2.847)**	**(2.755)**
Profit before taxation		**178**	**919**
Income tax expense		(98)	(253)
Net profit for the period before discontinued operations		**80**	**666**
Net result from discontinued operations			540
Net profit (loss) for the period		**80**	**1.206**
Net profit attributable to minority interests		97	14
Net profit (loss) attributable to shareholders		**(17)**	**1.192**

Consolidated statement of changes in equity

	Share capital	*Share premium reserve*	*Other reserves*	*Currency translation reserve*	*Net profit attributable to shareholders*	*Unrealised gains and losses*	*Share holders' equity*	*Minority interests*	*Total equity*
Balance at 1 January 2008	**4.694**	**20.257**	**7.533**	**(132)**	**1.781**	**(697)**	**33.436**	**430**	**33.866**
Net profit for the period					(20.556)		(20.556)	13	(20.543)
Revaluation of investments						(4.298)	(4.298)	(165)	(4.463)
Foreign exchange differences				(268)		(53)	(321)	(26)	(347)
Other non-owner changes in equity									
Total non-owner changes in equity				*(268)*	*(20.556)*	*(4.351)*	*(25.175)*	*(178)*	*(25.353)*
Transfer			1.781		(1.781)				
Dividend								(10)	(10)
Increase in capital	4.681	19					4.700		4.700
Treasury shares									
Equity component of subordinated liabilities									
Other changes in equity			(598)				(598)	2.538	1.940
Balance at 31 December 2008	**9.375**	**20.276**	**8.716**	**(400)**	**(20.556)**	**(5.048)**	**12.363**	**2.780**	**15.143**
Net profit for the period					(17)		(17)	97	80
Revaluation of investments						2.687	2.687	56	2.743
Foreign exchange differences				(71)		6	(65)	(2)	(67)
Other non-owner changes in equity									
Total non-owner changes in equity				*(71)*	*(17)*	*2.693*	*2.605*	*151*	*2.756*
Transfer			(20.556)		20.556				
Dividend									
Increase of capital									
Treasury shares									
Equity component of subordinated liabilities									
Other changes in equity			(35)				(35)	83	48
Balance at 30 June 2009	**9.375**	**20.276**	**(11.875)**	**(471)**	**(17)**	**(2.355)**	**14.933**	**3.014**	**17.947**

Consolidated cash flow statement

	2009	2008
Profit before taxation	178	(11.232)
Net result from discontinued operations		(9.127)
Tax expense from discontinued operations		63
Profit before taxation	**178**	**(20.296)**
Adjustments to non-cash items included in profit before taxation:		
(Un)realised gains (losses)	(408)	11.173
Depreciation, amortisation and accretion	135	602
Provisions and impairments	858	10.286
Share of profits in associates and joint ventures	(31)	(353)
Changes in operating assets and liabilities:		
Assets and liabilities held for trading	(1.861)	2.519
Due from banks	22.768	45.627
Due from customers	15.274	(35.124)
Other receivables	2.827	(2.005)
Due to banks	(36.335)	(48.107)
Due to customers	(28.877)	(175)
Net changes in all other operational assets and liabilities	23.267	55.144
Dividend received from associates	12	56
Income tax paid	(77)	(717)
Cash flow from operating activities	**(2.270)**	**18.630**
Purchases of investments	(8.268)	(64.023)
Proceeds from sales and redemptions of investments	30.261	57.523
Purchases of investment property	(2)	(83)
Proceeds from sales of investment property	3	45
Purchases of property, plant and equipment	(98)	(455)
Proceeds from sales of property, plant and equipment	16	189
Acquisition of subsidiaries, associates and joint ventures, net of cash acquired	(1.402)	(3.634)
Divestments of subsidiaries, associates and joint ventures, net of cash sold	44	2.973
Purchases of intangible assets	(15)	(277)
Proceeds from sales of intangible assets	-	1
Change in scope of consolidation	182	(29)
Cash flow from investing activities	**20.721**	**(7.770)**
Proceeds from the issuance of debt certificates	14.137	51.950
Payment of debt certificates	(10.822)	(78.227)
Proceeds from the issuance of subordinated liabilities	165	4.986
Payment of subordinated liabilities	(6.093)	(827)
Proceeds from the issuance of other borrowings	276	-
Payment of other borrowings	(929)	(51)
Proceeds from the issuance of shares	-	7.091
Dividends paid to shareholders of the parent company	-	
Dividends paid to minority interests	-	(10)
Repayment of capital (including minority interests)	(6)	(3)
Cash flow from financing activities	**(3.272)**	**(15.091)**
Effect of exchange rate differences on cash and cash equivalents	(54)	(128)
Net increase (decrease) in cash and cash equivalents	**15.125**	**(4.359)**
Cash and cash equivalents as at 1 January	**22.644**	**27.003**
Cash and cash equivalents as at 30 June	**37.769**	**22.644**
Non cash financing and investing activities		
Supplementary disclosure of operating cash flow information		
Interest received	51.695	97.696
Dividend received from investments	20	168
Interest paid	(48.424)	(91.222)

General Notes

1. Accounting policies

1.1. Accounting policies: general

The Fortis Bank Consolidated Interim Financial Statements for the first half-year 2009, including the 2008 comparative figures, have been prepared in accordance with International Financial Reporting Standards (IFRSs) – including International Accounting Standards (IAS) and Interpretations – at 30 June 2009 and as adopted by the European Union. In the case of IAS 39, Financial Instruments: Recognition and Measurement, the exclusion regarding hedge accounting (the so-called 'carve-out') decreed by the European Union on 19 November 2004 has been taken into account.

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

1.2. Accounting estimates

The preparation of interim financial statements in conformity with IFRS requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying these accounting policies. Actual results may differ from those estimates and judgemental decisions.

Judgements and estimates principally concern the following:
- estimate of the recoverable amount of impaired assets, including deferred tax assets
- determination of fair values of non-quoted financial instruments
- determination of the useful life and the residual value of property, plant and equipment, investment property and intangible assets
- actuarial assumptions related to the measurement of pension obligations and assets
- estimate of present obligations resulting from past events in the recognition of provisions
- model adjustments related to the measurement of the fair value of financial instruments, including derivatives, due to changing conditions in financial markets
- application of valuation techniques to financial instruments, including structured credit instruments and debt issuances, due to the presence of non-active financial markets

1.3. Changes in accounting policies, accounting estimates and classifications

The accounting policies, accounting estimates and classifications used to prepare the Consolidated Interim Financial Statements for the first half-year 2009 are consistent with those applied to the year ended 31 December 2008, except for the changes described below.

Changes have been made to accounting policies if required by changes in IFRS regulations or will result in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows.

Changes have been made to estimates if changes have occurred in the circumstances on which the estimate was based or if new information or more experience has been gained.

BNP Paribas gained control of Fortis Bank SA/NV by the acquisition of 75% of its share capital on 12 May 2009. As from that date, all assets and liabilities of Fortis Bank SA/NV (taking into account the minority interests) are also reported on the consolidated balance sheet of BNP Paribas and the results of Fortis Bank SA/NV are included in the BNP Paribas consolidated income statement.

Fortis Bank SA/NV must continue to prepare consolidated financial statements related to its consolidated statutory position, in accordance with IFRS accounting policies as approved by the Board of Directors of Fortis Bank SA/NV. Notwithstanding the fact that BNP Paribas and Fortis Bank SA/NV consolidated accounting policies are both based on IFRS, implementation differences exist, leading to differences in measurement methodologies and presentation formats.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. If a member of a group uses accounting policies other than those adopted in the consolidated financial statements of the group for like transactions and events in similar circumstances, appropriate adjustments will be made to its financial statements when the consolidated financial statements of the group are drawn up, in accordance with IAS 27, Consolidated and Separate Financial Statements.

Fortis Bank SA/NV will align, if possible and justified within the IFRS framework, its accounting policies, accounting estimates, classifications and methodologies and parameters used in the valuation and measurement of assets and liabilities, with the policies, estimates, classifications, methodologies and parameters applied by BNP Paribas. The objectives of this harmonisation are to attain consistent and transparent financial reporting and to avoid operational inefficiencies.

The proposed changes in accounting policies will be submitted for approval to the Board of Directors of Fortis Bank SA/NV and disclosed in the financial statements.

1.3.1. Change in accounting policies

As allowed by IAS 31, Interest in Joint Ventures, the proportionate method has been applied instead of the equity method to account for interests in joint ventures as from 30 June 2009. For further details, see Note 2, Change in consolidation method related to joint ventures.

1.3.2. New accounting policies

As of 12 May 2009, Fortis Bank acquired 25% of AG Insurance. In accordance with IFRS 3, Business Combinations, Fortis Bank has included the assets and liabilities of AG Insurance applying the purchase accounting method and has consolidated AG Insurance according to the equity method. The related assets and liabilities have been measured in accordance with the accounting and actuarial policies applied by Fortis Bank, taking into account the subsequent consolidation of the activities of AG Insurance, as part of Fortis Bank, in the BNP Paribas consolidated financial statements. For more details, see Note 1.34, Accounting standards specific to insurance business.

1.3.3. Changes in accounting estimates

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision, but can only be estimated. Estimating involves judgements based on the latest available, reliable information. The use of reasonable estimates is an essential part of the preparation of financial statements. Changes in accounting estimates result from new information or new developments.

As mentioned above, Fortis Bank will align, if possible and justified within the IFRS framework, its accounting estimates with the estimates applied by BNP Paribas, with the objective of attaining consistent and transparent financial reporting.

As a consequence of fundamental changes in all financial markets since the middle of last year, Fortis Bank has made in-depth analyses of whether adjustments were required to its valuation methods and model reserves relating to various financial instruments. This process was already ongoing in previous periods, but the analyses were continued in the second quarter of 2009 and Fortis Bank introduced estimates, classifications, methodoligies and parameters as also applied by BNP Paribas. The resulting adjustments led to EUR -548 million revaluations (of which EUR –112 million in other comprehensive income and EUR –436 million through profit or loss) mainly in Fixed Income (EUR -337 million), Commodities (EUR -70 million), Equity Derivatives (EUR -48 million) and Credit Valuation Adjustments (EUR -70 million). The credit spread used in the valuation of liabilities held at fair value through profit or loss, reflecting the own credit risk component, has been adjusted due to the change in ownership of Fortis Bank. This led to a positive impact of EUR 255 million on profit or loss concerning the Nitsh I and II related loans (see note 28 of the Fortis Bank Consolidated Annual Financial Statements 2008).

Changes in the estimation of present obligations resulting from past events, led to adjustments in provisions for taxes (EUR 91 million) and medical coverage (EUR 72 million) in the first half of 2009.

In line with IAS 12, Income Taxes, Fortis Bank reassesses unrecognised or impaired deferred tax assets at the end of each reporting period, analysing its capacity to generate future taxable profits. The development and implementation of the new industrial plan for Fortis Bank could have a significant impact on the future profit-generating capacity of the different entities that make up Fortis Bank SA/NV. Given the ongoing finalisation of the industrial plan, not yet leading to a quantified multi-year budget, it was decided to maintain unrecognised and impaired deferred tax assets at Fortis Bank Belgium at the same levels as at year-end 2008.

The development and implementation of the industrial plan, as well as changes in the global financial and economic environment, can imply further changes in accounting estimates in the coming periods. Besides the assessment of deferred tax assets, the measurement of employee benefit obligations and the loan loss provisioning methodologies are currently under analysis.

1.3.4. Changes in classifications

On 13 October 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 39, Financial Instruments: Recognition and Measurement (endorsed by the European Union on 15 October 2008). The amendments to IAS 39 permit the reclassification of held for trading or available for sale items as loans and receivables, if the entity has the intention and ability to hold the financial asset for the foreseeable future. The amendments also allow non-derivative financial assets classified as held for trading to be reclassified in rare circumstances (the IASB considers the current financial crisis to be just such rare circumstance).

Fortis Bank mainly made the following reclassifications in the first half-year 2009:

- reclassification of the major part of the retained structured credit portfolio as loans and receivables, instead of trading and available for sale
- reclassification of the Dutch residential mortgage portfolios, Dolphin and Beluga, as loans and receivables, instead of from available for sale

For more details, see Note 11.5, Loans and receivables.

1.3.5. Changes in IFRSs and IFRICs

Changes in the IFRS regulation can require changes in the accounting policies applied by Fortis Bank SA/NV.

The changes to Standards (IFRSs) and Interpretations (IFRICs) that came into effect during the first half-year 2009 are described below, as well as their potential impact on Fortis Bank SA/NV accounting policies:

- IFRS 8, Operating Segments (publication date 20 November 2006, EU endorsement date 21 November 2007), introduces the management approach, which requires segment disclosures based on the components of the entity that management monitors when making decisions about operating matters. This has so far not led to changes in the segment reporting of Fortis Bank, and is awaiting further alignment with BNP Paribas.

- Revised IAS 23, Borrowing Costs (publication date 29 March 2007, EU endorsement date 10 December 2008), removes the possibility of recognising borrowing costs directly in the income statement. This has no impact on Fortis Bank, as it had already opted to capitalise borrowing costs.

- Revised IAS 1, Presentation of Financial Statements (publication date 6 September 2007, EU endorsement date 17 December 2008) introduces some changes in reporting formats that have no impact on Fortis Bank.

- Revised IFRS 2, Share-based Payments (publication date 17 January 2008, EU endorsement date 16 December 2008). This amendment clarifies that vesting conditions are service conditions only and introduces non-vesting conditions. The amendment has no material effect on Fortis Bank.

- IAS 32 / IAS 1, Puttable Financial Instruments (publication date 14 February 2008, EU endorsement date 21 January 2009), changes the classification of certain instruments from financial liabilities to equity instruments. None of the transactions of Fortis Bank is affected by this change.

- Improvements to IFRSs (publication date 22 May 2008, EU endorsement date 23 January 2009), a collection of minor amendments to a number of IFRSs, without any material effect on Fortis Bank.

- IFRS 1 / IAS 27, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (publication date 22 May 2008, EU endorsement date 23 January 2009). These have no impact on Fortis Bank as the IFRS 1 changes are limited to first-time adopters and IAS 27 is only applicable to entities applying IFRS in separate financial statements (where Fortis Bank applies Belgian GAAP).

- IFRIC 13, Customer Loyalty Programmes, addresses accounting by entities granting loyalty award credits to customers, without any material effect on Fortis Bank.

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (publication date 3 July 2008, EU endorsement date 4 June 2009), clarifies what entities can hedge a net investment and where the hedging instrument can be held, without any material effect on Fortis Bank.

The IASB also published the following Standards and Interpretations, which had not yet been endorsed by the EU as at 30 June 2009 and consequently not yet adopted by Fortis Bank:

- IFRS 7, Improving Disclosures about Financial Instruments (publication date 5 March 2009).

- IFRIC 9 / IAS 39, Embedded Derivatives (publication date 12 March 2009).

- IFRIC 15, Agreements for the Construction of Real Estate (publication date 3 July 2008).

1.4. Segment reporting

Primary reporting format – business segments

The primary format for reporting segment information is based on business segments. Fortis Bank's reportable business segments represent groups of assets and operations engaged in providing financial products or services, which are subject to differing risks and returns.

Fortis Bank's core activity is **Banking**. As such, Fortis Bank is organised on a worldwide basis into four businesses, further subdivided into business segments:

- Retail Banking
- Asset Management
- Private Banking
- Merchant Banking

Activities unrelated to Banking and elimination differences are reported separately from the Banking activities.

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

Secondary reporting format – geographical segments

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

Fortis Bank's geographical segments for reporting purposes are as follows:

- Benelux (Belgium, the Netherlands, Luxembourg)
- Other European Countries
- North America
- Asia
- Other

1.5. Consolidation principles

Subsidiaries

The Consolidated Interim Financial Statements include those of Fortis Bank and its subsidiaries. Subsidiaries are those companies of which Fortis Bank, either directly or indirectly, has the power to govern the financial and operating policies, so as to obtain benefits from their activities ('control'). Subsidiaries are consolidated from the date on which effective control is transferred to Fortis Bank and are no longer consolidated from the date on which control ceases. Subsidiaries acquired exclusively with a view to resale are accounted for as non-current assets held for sale (see Section 1.21 Non-current assets held for sale and discontinued operations).

Fortis Bank sponsors the formation of Special Purpose Entities (SPEs) primarily for the purpose of asset securitisation transactions, structured debt issuance, or to accomplish another well-defined objective. Some of the SPEs are bankruptcy-remote companies whose assets are not available to settle the claims of Fortis Bank. SPEs are consolidated if, in substance, they are controlled by Fortis Bank.

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

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

Joint ventures

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

Associates
Investments in associates are accounted for using the equity method. These are investments where Fortis Bank has significant influence, but which it does not control. The investment is recorded as Fortis Bank's share of the net assets of the associate. The ownership share of net income for the year is recognised as investment income and Fortis Bank's share in the investment's post-acquisition direct equity movements are recognised in equity.

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

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

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

Consolidation scope
Fortis Bank's full consolidation scope is detailed in the Annual Report 2008 of Fortis Bank, page 238. The modifications that have taken place in the first half-year 2009 are disclosed in Note 2, Change in consolidation method for joint ventures and Note 3, Acquisitions and disposals.

1.6. Foreign currency

The Consolidated Interim Financial Statements are stated in euros, which is the presentation currency of Fortis Bank.

Foreign currency transactions
Foreign currency transactions by individual entities of Fortis Bank are accounted for using the exchange rate at the date of the transaction.

Outstanding balances in foreign currencies at year-end are translated at year-end exchange rates in the case of monetary items. Translation of non-monetary items depends on whether these are carried at historical cost or at fair value. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date of the transaction. Non-monetary items that are carried at fair value are translated using the exchange rate on the date that the fair value is determined.

The resulting exchange differences are recorded in the income statement as foreign currency gains (losses), except for those non-monetary items whose fair value change is recorded as a component of equity.

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

- exchange differences are determined based on movements in the exchange rate used to calculate the previous balances in foreign currency
- unrealised (fair value) results are determined based on the difference between the balances in euros in the previous and in the new period, converted at the new exchange rate

Foreign currency translation
Upon consolidation, the income statement and cash flow statement of entities whose functional currency is not euros are translated into the presentation currency of Fortis Bank (euros), at average daily exchange rates for the current year (or exceptionally, if exchange rates fluctuate significantly, at the exchange rate on the date of the transaction), while their balance sheets are translated using the exchange rates prevailing at the balance sheet date. Translation exchange differences are recognised in equity under 'currency translation reserve'. Upon disposal of a foreign entity, such exchange differences are recognised in the income statement as part of the gain or loss on the sale.

Exchange differences arising on monetary items, borrowings and other currency instruments, designated as hedges of a net investment in a foreign entity, are recorded in equity (under 'currency translation reserve') in the Consolidated Interim Financial Statements until the disposal of the net investment, except for any hedge ineffectiveness, which will be immediately recognised in the income statement.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate on the balance sheet date. All resulting differences are recognised in equity under 'currency translation reserve' until disposal of the foreign entity when recycling to the income statement will take place.

The following table shows the exchange rates of the currencies most relevant to Fortis Bank.

	Closing rates		*Average rates*	
	2009	*2008*	*2009*	*2008*
1 EURO =				
Pound Sterling (GBP)	0.85	0.95	0.89	0.80
US Dollar (USD)	1.40	1.39	1.33	1.47
Japanese Yen (JPY)	135.12	126.18	127.32	152.46

1.7. Trade and settlement date

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

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

1.8. Offsetting

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

1.9. Classification and measurement of financial assets and liabilities

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

Financial assets
Consequently, financial assets are classified as assets held for trading, investments, due from banks and due from customers.

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

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

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

- Financial assets at fair value through profit or loss include:
  (i) financial assets held for trading, including derivative instruments that do not qualify for hedge accounting
  (ii) financial assets that Fortis Bank has irrevocably designated as held at fair value through profit or loss at the time of initial recognition or first-time adoption of IFRS, because
    - the host contract includes an embedded derivative that would otherwise require separation
    - it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') or
    - it relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis

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

Financial liabilities
Financial liabilities are classified as liabilities held for trading, due to banks, due to customers, debt certificates, subordinated liabilities and other borrowings.

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

- Financial liabilities at fair value through profit or loss include:
  (i) financial liabilities held for trading, including derivative instruments that do not qualify for hedge accounting
  (ii) financial liabilities that Fortis Bank has irrevocably designated at initial recognition or first-time adoption of IFRS as held at fair value through profit or loss, because:
    - the host contract includes an embedded derivative that would otherwise require separation
    - it eliminates or significantly reduces a measurement or recognition inconsistency ('accounting mismatch') or
    - it relates to a portfolio of financial assets and/or liabilities that are managed and evaluated on a fair value basis

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

1.10. Fair value of financial instruments

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

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

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

- Fair values for securities available for sale or at fair value through profit or loss are determined using market prices in active markets. If no quoted prices are available from an active market, the fair value is determined using discounted cash flow models. Discount factors are based on the swap curve plus a spread reflecting the risk characteristics of the instrument. Fair values for securities held to maturity (only necessary for disclosures) are determined in the same way.
- Fair values for derivative financial instruments are obtained from active markets or determined using, as appropriate, discounted cash flow models and option pricing models.
- Fair values for unquoted private equity investments are estimated using applicable market multiples (e.g. price/earnings or price/cash flow ratios) refined to reflect the specific circumstances of the issuer.
- Fair values for loans are determined using discounted cash flow models based on Fortis Bank's current incremental lending rates for similar type loans. Fair values for variable-rate loans that re-price frequently and have no significant change in credit risk are approximated by the carrying amount. Option pricing models are used for valuing caps and prepayment options embedded in loans that have been separated in accordance with IFRS.
- Off-balance-sheet commitments or guarantees are fair valued based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.
- For short-term payables and receivables, the carrying amounts are considered to approximate fair values.

1.11. Measurement of impaired assets

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

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

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

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

For equity securities, the triggers used to determine whether there is objective evidence of impairment include, among others, the consideration whether the fair value is substantially below cost at the balance sheet date, or has been below cost for a prolonged period at the balance sheet date. Specific triggers have been determined for structured credit instruments. Please refer to Note 11.4, Structured credit instruments.

Depending on the type of financial asset, the recoverable amount can be estimated by means of the following:
- fair value using an observable market price
- present value of expected future cash flows discounted at the instrument's original effective interest rate (for financial assets carried at amortised cost)
- based on the fair value of the collateral

Impairments of available-for-sale equity instruments cannot be reversed through the income statement in subsequent periods.

Goodwill and other intangible assets
See Section 1.20 Goodwill and other intangible assets.

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

1.12. Cash and cash equivalents

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

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

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

1.13. Due from banks and due from customers

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

Loan commitments that allow for a drawdown of a loan within the timeframe generally established by regulation or convention in the market place are not recognised as derivative financial instruments but are recognised off balance sheet.

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

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

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

Impairments are recorded as a decrease in the carrying value of 'due from banks' and 'due from customers'.

Impairments on loan commitments recorded off balance sheet are classified as 'provisions'.

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

1.14. Sale and repurchase agreements and lending/ borrowing securities

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

Securities lent to counterparties remain on the balance sheet. Similarly, securities borrowed are not recognised on the balance sheet. If borrowed securities are sold to third parties, the proceeds from the sale and a liability for the obligation to return the collateral are recorded. The obligation to return the collateral is measured at fair value through profit or loss and is classified as a liability held for trading. Cash advanced or received related to securities borrowing or lending transactions is recorded as 'due from banks' / 'due from customers' or 'due to banks' / 'due to customers'.

1.15. Assets and liabilities held for trading

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

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

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

1.16. Investments

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

Held-to-maturity investments are carried at amortised cost less any impairment charges. Any difference between the initially recognised amount resulting from transaction costs, initial premiums or discounts is amortised over the life of the investment using the effective interest method. If a held-to-maturity investment is considered to be impaired, the impairment is recognised in the income statement.

Available-for-sale investment securities are held at fair value. Changes in the fair value are recognised directly in equity until the asset is sold, unless the asset is hedged by a derivative. If an investment is considered to be impaired, the impairment is recognised in the income statement. In the case of impaired available-for-sale investments, unrealised losses previously recognised in equity are transferred to the income statement when the impairment occurs.

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

Available-for-sale investment securities that are hedged by a derivative are carried at fair value with movements in fair value recognised through the income statement for the part attributable to the hedged risk and through equity for the remaining part.

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

Investment property

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

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

Fortis Bank rents out its investment property under various non-cancellable leases. Certain leases contain renewal options for various periods; the rental income associated with these contracts is recognised as investment income on a straight-line basis over the rental term.

Transfers to, or from, investment property are only made when there is a change of use:

- to investment property at the end of owner-occupation, or at the start of an operating lease to a another party, or at the end of construction or development
- from investment property at the commencement of owner-occupation, or start of development with a view to sale

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

1.17. Leasing

Fortis Bank as a lessor

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

Fortis Bank has also entered into finance leases, in which substantially all the risks and rewards related to ownership of the leased asset, other than legal title, are effectively transferred to the customer.

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

Fortis Bank as a lessee

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

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

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

1.18. Other receivables

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

1.19. Property, plant and equipment

All real estate held for own use and fixed assets are stated at cost less accumulated depreciation (except for land, which is not depreciated) and any accumulated impairment losses. Cost is the amount of cash or cash equivalents paid or the fair value of any other consideration given in (part) exchange for an asset at the time of its acquisition or construction.

Buildings are depreciated using the straight-line method to write down the cost of such assets to their residual value over their estimated useful lives. The useful life of buildings is determined separately for each significant part (component approach) and is reviewed at each year-end. Real estate is therefore divided into the following components: structure, closing, techniques and equipment, heavy finishing and light finishing.

The maximum useful life of the components is as follows:

Structure	50 years for offices and retail; 70 years for residential
Closing	30 years for offices and retail; 40 years for residential
Techniques and equipment	20 years for offices; 25 years for retail and 40 years for residential
Heavy finishing	20 years for offices; 25 years for retail and 40 years for residential
Light finishing	10 years for offices, retail and residential

Land has an unlimited useful life and is therefore not depreciated. IT and office equipment are depreciated over their respective useful lives, which is determined individually.

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

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

For more details of borrowing costs to finance the construction of property, plant and equipment: see Section 1.32 Borrowing costs.

1.20. Goodwill and other intangible assets

Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance that is recognised at cost if, and only if, it will generate future economic benefits and if the cost of the asset can be measured reliably.

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

Intangible assets with definite lives are amortised over their estimated useful life.

Goodwill

Acquisitions of companies are accounted for using the purchase method of accounting. Goodwill represents the amount by which the fair value of acquired assets, liabilities incurred or assumed, and equity instruments issued, plus any costs directly attributable to the business combination exceeds Fortis Bank's interest in the fair value of assets acquired and liabilities and contingent liabilities assumed. Goodwill arising on the acquisition of a subsidiary is reported on the balance sheet as an intangible asset. Goodwill arising on business combinations before 1 January 2004 is deducted from equity and is not restated under IFRS. At acquisition date, it is allocated to those cash-generating units that are expected to benefit from the synergies of the business combination. It is not amortised, but is instead tested for impairment. Goodwill arising on the acquisition of an associate is treated as part of the investment in the associate.

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

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

In the event of an impairment loss, Fortis Bank first reduces the carrying amount of goodwill allocated to the cash-generating unit and then reduces the other assets in the cash-generating unit pro rata to the carrying amount of each asset in the cash-generating unit. Previously recognised impairment losses relating to goodwill are not reversed.

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

Other intangible assets

Internally generated intangible assets

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

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

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

Software

Software that is essential to the operation of computer hardware, such as the operating system, is an integral part of the related hardware and is treated as property, plant and equipment. If the software is not an integral part of the related hardware, the costs incurred during the development phase, which meet all the above criteria are capitalised as an intangible asset and amortised using the straight-line method over the estimated useful life. In general, such software is amortised over a maximum of 5 years.

Other intangible assets with finite lives

Other intangible assets include intangible assets with finite lives, such as trademarks and licenses that are generally amortised over their useful lives using the straight-line method. Intangible assets with finite lives are reviewed for indications of impairment at each reporting date. In general, such intangible assets have an expected useful life of 10 years at most.

1.21. Non-current assets held for sale and discontinued operations

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

A discontinued operation refers to a part of Fortis Bank that has been disposed of or is classified as held for sale and:

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

Non-current assets held for sale (and disposal groups) are not depreciated but measured at whichever is the lower of their carrying amount and fair value less costs to sell, and are presented separately on the balance sheet.

Results from discontinued operations are recognised separately in the income statement.

1.22. Derivative financial instruments and hedging

Recognition and classification

Derivatives are financial instruments such as swaps, forward and future contracts, and options (both written and purchased). The value of these financial instruments changes in response to movements in various underlying variables; they require little or no net initial investment and are settled at a future date.

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

- derivatives held for trading in 'assets held for trading' and 'liabilities held for trading' and
- derivatives that qualify for hedge accounting in 'accrued interest and other assets' and 'accrued interest and other liabilities'

Subsequent changes in the clean fair value (i.e. excluding the unrealised portion of interest accruals) of derivatives are reported in the income statement under 'other realised and unrealised gains and losses'.

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

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

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

Hedging

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

At the start of the transaction, Fortis Bank documents the relationship between the hedging instrument and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions.

Fortis Bank also documents its assessment – both at the start of the hedge and on an ongoing basis – of the effectiveness of the derivatives used in hedging transactions in compensating for changes in the fair value or cash flow of hedged items. Fortis Bank has harmonised its effectiveness testing methodology and procedures with BNP Paribas as from 30 April 2009.

Only assets, liabilities, firm commitments or highly probable forecast transactions that involve parties outside Fortis Bank are designated as hedged items.

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

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

Fair value hedge accounting has been applied since 1 January 2005 to portfolio hedges of interest rate risk ('macro hedging'). Macro hedging implies that a group of derivatives (or portions) are viewed in combination and jointly designated as the hedging instrument. Although the portfolio may, for risk management purposes, include assets and liabilities, the amount designated refers either to assets or to liabilities.

The harmonisation of the effectiveness testing methodology and procedures with BNP Paribas required Fortis Bank to discontinue the existing macro hedge relationships as at 30 April 2009 and start new hedges as from that date. The combined effect of the amortisation of (1) the fair value adjustments to hedged instruments that are part of the discontinued hedges and (2) the new initial difference between the fair value and the carrying value of the hedged instruments in the new hedges is spread over the life of the hedges under 'unrealised gains and losses'.

For macro hedges, Fortis Bank uses the 'carved out' version of IAS 39 adopted by the European Union, which removes some of the limitations on fair value hedges and the strict requirements on the effectiveness of those hedges. In this version, no ineffectiveness is recognised on anticipated repayments, as long as underhedging exists.

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

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

This also applies if the hedge no longer meets the criteria for hedge accounting or is otherwise discontinued, but the hedged forecasted transactions or firm commitments are still expected to occur. If the hedged forecasted transactions or firm commitments are no longer expected to occur, the amounts deferred in equity will be transferred to the income statement directly.

Net investment hedges are discussed in Section 1.6 Foreign currency.

1.23. Securitisations

Fortis Bank securitises various consumer and commercial financial assets. These securitisations may take the form of a sale of the related assets or a credit risk transfer through the use of funded credit derivatives to special purpose entities. These special purpose entities then issue various security tranches to investors. The financial assets included in a securitisation are fully or partially derecognised when Fortis Bank transfers substantially all risks and rewards of the assets or portions thereof or when Fortis Bank neither transfers nor retains substantially all risks and rewards but does not retain control over the financial assets transferred.

1.24. Debt certificates, subordinated liabilities and other borrowings

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

Debt that can be converted into a fixed number of Fortis Bank's own shares is separated into two components on initial recognition: (a) a liability instrument and (b) an equity instrument. The liability component is first determined by measuring the fair value of a similar liability (including any embedded non-equity derivative features) that does not have an associated equity component.

The carrying amount of the equity instrument represented by the option to convert the instrument into common shares is then determined by deducting the carrying amount of the financial liability from the amount of the compound instrument as a whole.

Preference shares, which carry a mandatory coupon, or which are redeemable on a specific date or at the option of the shareholder, including those preference shares that establish such a contractual obligation indirectly through their terms and conditions, are classified as borrowings. The dividends on these preference shares are recognised in the income statement as interest expense on an amortised cost basis using the effective interest method.

If Fortis Bank purchases its own debt, this will be removed from the balance sheet and the difference between the carrying amount of the liability and the consideration paid will be included in the income statement.

When determining whether preference shares are classified as a financial liability or as an equity instrument, Fortis Bank assesses the particular rights attached to the shares to ascertain whether they exhibit the fundamental characteristics of a financial liability.

1.25. Employee benefits

Pension liabilities

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

A defined benefit plan is a pension plan that defines the amount of pension benefit that an employee will receive on retirement, usually dependant on one or more factors such as age and years of service. A defined contribution plan is a pension plan under which the employer pays fixed contributions. Qualified actuaries calculate the pension assets and liabilities at least once a year.

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

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

Assets that support the pension liabilities of an entity must meet certain criteria in order to be classified as 'qualifying pension plan assets'. These criteria relate to the fact that the assets should be legally separate from Fortis Bank or its creditors. If these criteria are not met, the assets will be included in the relevant item on the balance sheet (such as investments, property, plant and equipment). If the assets do meet the criteria, they will be netted against the pension liability.

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

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

Fortis Bank's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate.

Other post-retirement liabilities

Some Fortis Bank companies provide post-retirement employee benefits to retirees such as loans at preferential interest rates and health care insurance. Entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Expected costs of these benefits are accrued over the period of employment, using a methodology similar to that for defined benefit pension plans. These liabilities are determined based on actuarial calculations.

Equity options and equity participation plans
Share options and restricted shares are granted to directors and to employees for services received. The fair value of the services received is determined by reference to the fair value of the share options and restricted shares granted. Compensation expense is measured at grant date based on the fair value of the options and restricted shares and is recognised, either immediately at grant date if there is no vesting period, or over the vesting period of the options and restricted shares.

The fair value of share options is determined using an option-pricing model that takes into account the share price at the grant date, the exercise price, the expected life of the options, the expected volatility of the underlying shares and the expected dividends on those shares, and the risk-free interest rate over the expected life of the options.

Share options and restricted shares are granted free of charge by Fortis to directors and employees of Fortis Bank and its subsidiaries. These share-based payment transactions are considered equity-settled. Fortis Bank and its subsidiaries have no further commitment other than the payment of the fair value of the equity instruments to Fortis at grant date, and the recognition of the related staff expenses, either immediately at grant date if there is no vesting period, or on a pro rata basis over the vesting period.

Loans granted at preferential rates
Loans are sometimes provided to employees at an interest rate which is lower than the market rate. The terms of the loans granted at preferential rates state that employees will lose the benefit of the preferential rate upon termination of employment, at which time the interest rate on the loan will be adjusted to the current market rate. However, some Fortis Bank entities allow their employees to keep the preferential rate subsequent to retirement.

For the first category, the difference between the net present value of the loans at preferential rate and the net present value at the prevailing market rate is recognised in the balance sheet as a deferred compensation expense and recorded under operating and administrative expenses over the period that the employee obtains the benefit. Likewise, interest income is corrected to show the loans at market rate.

When loans continue after retirement and the former employees continue to benefit from preferential rates due to their past service with Fortis Bank, this benefit is taken into account when determining post-retirement benefits other than pensions.

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

1.26. Provisions, contingencies, commitments and financial guarantees

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

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

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

Financial guarantees

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

Financial guarantee contracts requiring Fortis Bank to make specified payments to reimburse the holder for a loss the holder incurs because a specified debtor fails to make payment when due are accounted for as insurance contracts if significant insurance risk is transferred to Fortis Bank.

1.27. Equity

Share capital

Share issue costs

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

Other equity components

Other elements recorded in equity are related to:

- direct equity movements – associates (see Section 1.5 Consolidation principles)
- foreign currency (see Section 1.6 Foreign currency)
- available-for-sale investments (see Section 1.16 Investments)
- cash flow hedges (see Section 1.22 Derivative financial instruments and hedging)

1.28. Interest income and expense

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

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

1.29. Realised and unrealised gains and losses

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

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

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

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

1.30. Fee and commission income

Fees as integral part of effective interest rate

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

Fees recognised as services are provided

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

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

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

1.31. Transaction costs

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

1.32. Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs that are directly attributable to the acquisition or construction of an asset are capitalised while the asset is being constructed, as part of the cost of that asset. Capitalisation of borrowing costs should commence when:
- expenditures on the asset and borrowing costs are incurred
- activities necessary to prepare the asset for its intended use or sale are in progress

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

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

1.33. Income tax expenses

Current tax is the amount of income taxes payable (recoverable) in respect of the taxable profit (tax loss) for a period.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences.

Deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses and of unused tax credits.

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

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Consolidated Interim Financial Statements.

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

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

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

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

1.34. Accounting standards specific to insurance business

Specific accounting policies relating to assets and liabilities generated by insurance contracts and investment contracts with a discretionary participation feature written by insurance companies are retained for the purposes of the Fortis Bank Consolidated Interim Financial Statements. These policies comply with IFRS 4, Insurance Contracts.

Assets

Investments related to unit-linked contracts

Financial assets representing technical provisions related to unit-linked business are stated at the fair value of the underlying assets at the balance sheet date.

Deferred acquisition costs (DAC)

The costs of new and renewed insurance business, principally commissions, underwriting, agency and policy issue expenses, all of which vary with, and are primarily related to, the production of new business, are deferred and amortised. Deferred acquisition costs are periodically reviewed to ensure they are recoverable based on estimates of future profits of the underlying contracts.

Liabilities

Life insurance

The technical provisions representing the obligations to policyholders and beneficiaries comprise liabilities relating to insurance contracts carrying a significant insurance risk (e.g. mortality or disability) and to investment contracts with a discretionary participation feature. A discretionary participation feature is one which gives life policyholders the right to receive, as a supplement to guaranteed benefits, a share of actual profits. Liabilities relating to investment contracts without any discretionary participation feature are valued at amortised cost and reported as a deposit liability. Unit-linked contract liabilities are measured by reference to the fair value of the underlying asset at the balance sheet date.

The technical provisions comprising liabilities relating to insurance contracts carrying a significant insurance risk consist primarily of mathematical reserves, which generally correspond to the surrender value of the contract. Future policy benefit liabilities are calculated using a net level premium method (present value of future net cash flows) on the basis of actuarial assumptions as determined by historical experience and industry standards. Participating contracts include any additional liabilities relating to contractual dividends or participation features.

Liability adequacy test ('LAT')

This test is carried out at each reporting date to assess whether the recognised liabilities are adequate, using current portfolio yields to estimate future cash flows. The adequacy of the liability is tested on the level of homogeneous product groups. If the liabilities are not sufficient to provide for future cash flows, including cash flows such as maintenance costs, as well as cash flows resulting from embedded options and guarantees and amortisation of the deferred acquisition costs (DAC), the DAC will be written off and/or additional liabilities will be established based on best-estimate assumptions. Any recognised deficiency is immediately reported in the income statement.

Shadow accounting

Realised gains or losses on assets could have a direct effect on all or part of the measurement of the insurance liabilities and related deferred acquisition costs.

Shadow accounting is applied to changes in fair value of the available for sale investments and of assets and liabilities held for trading that are linked to, and therefore affect, the measurement of the insurance liabilities. These changes in fair value will therefore not be part of equity or net profit.

Non-life insurance

Non-life technical reserves include unearned premium reserves (corresponding to the portion of written premiums relating to future periods) and outstanding claims reserves, inclusive of claims handling costs.

2. Change in consolidation method of joint ventures

With effect from the second quarter of 2009, Fortis Bank decided to change its accounting policies for consolidating joint ventures from the proportionate consolidation method to the equity method. Fortis Bank's most important joint venture is Bank van de Post / Banque de la Poste, a jointly owned subsidiary of Fortis Bank and the Belgian Post Office. Fortis Bank has a 50% stake in this joint venture.

Under the previous accounting policies of Fortis Bank, investments in joint ventures were accounted for using the equity method. Following the acquisition of Fortis Bank by BNP Paribas on 12 May 2009, Fortis Bank's consolidation methods have been harmonised with those of BNP Paribas, which accounts for its joint ventures using the proportionate consolidation method. The proportionate consolidation method better reflects the substance and economic reality of Fortis Bank's interest in Bank van de Post / Banque de la Poste.

Under the proportionate consolidation method, Fortis Bank's interest in Bank van de Post / Banque de la Poste is now stated item by item throughout the consolidated balance sheet, whereas prior to the first half of 2009, it was stated only under one single item, i.e. 'investments in associates and joint ventures'.

The same principle applies to the consolidated income statement: Fortis Bank's share of profit or loss is now stated item by item throughout the consolidated income statement, whereas prior to the first half of 2009, it was stated only under one single item, i.e. 'dividend, share in results of associates and joint ventures and other investment income'.

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The table below shows the contribution of Bank van de Post / Banque de la Poste to the consolidated balance sheet of Fortis Bank.

	Proportionate Consolidation	*Proportionate Consolidation*	*Equity Method Consolidation*
	30 June 2009	*31 December 2008*	*31 December 2008*
Assets			
Cash and cash equivalents	155	61	
Assets held for trading			
Due from banks	51	50	
Due from customers	25	34	
Investments:			
- Held to maturity			
- Available for sale	3,155	3,008	
- Held at fair value through profit or loss			
- Reclass to Loans and Receivables			
- Investment property			
- Associates and joint ventures			84
	3,155	3,008	84
Trade and other receivables	7	6	
Property, plant and equipment	8	9	
Goodwill and other intangible assets	5	6	
Assets classified as held for sale			
Current and deferred tax assets		9	
Accrued interest and other assets	24	(4)	(75)
Total assets	**3,430**	**3,179**	**9**
Liabilities			
Liabilities held for trading			
Due to banks	1	1	
Due to customers	3,152	2,799	
Debt certificates	423	421	
Subordinated liabilities			
Other borrowings	79	70	
Provisions			
Current and deferred tax liabilities	13		
Accrued interest and other liabilities	(291)	(121)	
Liabilities related to assets held for sale			
Allocated liabilities			
Total liabilities	**3,377**	**3,170**	
Shareholders' equity	53	9	9
Minority interests			
Total equity	**53**	**9**	**9**
Total liabilities and equity	**3,430**	**3,179**	**9**

The table below shows the contribution of Bank van de Post / Banque de la Poste to the consolidated income statement of Fortis Bank.

	Proportionate Consolidation	*Proportionate Consolidation*	*Equity Method Consolidation*
	30 June 2009	*30 June 2008*	*30 June 2008*
Income			
Interest income	62	55	
Interest expense	(39)	(34)	
Net interest income	**23**	**21**	
Fee and commission income	8	8	
Fee and commission expense	(14)	(12)	
Net fee and commission income	**(6)**	**(4)**	
Dividend, Share in result of Associates and Joint ventures and other investment income			3
Realised capital gains (losses) on investments			
Other realised and unrealised gains and losses			
Other income	1	1	
Total income, net of interest expense	**18**	**18**	**3**
Change in impairments	(3)		
Net revenues	**15**	**18**	**3**
Expenses			
Staff expenses	(4)	(4)	
Depreciation and amortisation of tangible and intangible assets	(3)	(3)	
Other expenses	(9)	(8)	
Total expenses	**(16)**	**(15)**	
Profit before taxation	**(1)**	**3**	**3**
Income tax expense	1		
Net profit for the period before discontinued operations		**3**	**3**
Net result on discontinued operations			
Net profit (loss) for the period		**3**	**3**
Net profit attributable to minority interests			
Net profit (loss) attributable to shareholders		**3**	**3**

3. Acquisitions and disposals

3.1. Acquisition AG Insurance

On 12 March 2009, Fortis, Fortis Bank, the Belgian State, SFPI/FPIM (Société Fédérale de Participations et d'Investissement / Federale Participatie- en Investeringsmaatschappij) and BNP Paribas entered into an agreement (Avenant No.3 of the Protocole d'Accord). This agreement stipulated that Fortis Insurance N.V. was to transfer 157,822 ordinary shares of Fortis Insurance Belgium, representing 25% plus one share, to Fortis Bank for a total consideration of EUR 1,375 million.

The acquisition was finalised on 12 May 2009 and the name of Fortis Insurance Belgium was changed to AG Insurance on 22 June 2009.

In addition to this transfer of shares, the agreement also provided for a strategic partnership between Fortis Bank and the Fortis group insurance operations.

AG Insurance is considered an associate by Fortis Bank and will therefore be accounted for using the equity method. The fair value of net assets in AG Insurance amounted to EUR 1,181 million as at 12 May 2009 and goodwill of EUR 194 million was recorded.

3.2. Other Acquisitions

No other major acquisitions were made during the first half of 2009. The acquisitions that took place in 2008 were:

Acquired company	*Quarter of acquisition*	*Acquisition amount*	*Percentage acquired*	*intangible assets*	*Goodwill*	*Segment*
ABN AMRO Asset Management Holding	Q2 2008	4,105	100	514	3,358	Asset Management

The above amounts for capitalised intangible assets and goodwill are the initial amounts, converted into euros and taking into account changes that were necessary because the method of accounting for a business combination was only determined provisionally at the end of the period in which the combination was effected. Subsequent changes due to net exchange differences and other changes are excluded. This acquisition did not have any substantial impact on Fortis Bank's financial position and performance.

3.3. Disposals

There was no major disposal in the first half of 2009. The major disposal in 2008 related to the sale of Fortis Bank Nederland (Holding) – FBN(H) – and all its subsidiaries and participating interests. It also included the investment in RFS Holdings B.V., the company through which the acquisition of the ABN AMRO activities was accomplished.

4. Assets classified as held for sale and discontinued operations

As at 30 June 2009, Fortis Bank did not have any assets that it intended to sell rather than hold for continuing use. As at 31 December 2008, three asset management entities were considered non-core and classified in the balance sheet as assets held for sale and liabilities related to assets classified as held for sale. These entities were Artemis, Montag & Caldwell (M&C) and Teda, representing an amount of EUR 727 million. Together with other small elements amounting to EUR 11 million, total assets classified as held for sale amounted to EUR 738 million at 31 December 2008. As at the same date, liabilities related to assets classified as held for sale amounted to EUR 105 million (EUR 101 million related to non-core Asset Management entities and EUR 4 million to Other).

The reclassification of the three asset management entities was due to a management decision. Artemis and M&C are no longer considered held for sale and were fully consolidated in the balance sheet of Fortis Bank as at 30 June 2009. As for Teda, an agreement to sell was signed in August 2008 but was cancelled in the second quarter of 2009. This Chinese joint venture is now reported on the balance sheet under investments in associates and joint ventures and is consolidated using the equity method.

There was no net result from discontinued operations at 30 June 2009. No major disposal occurred in the first half of 2009. In 2008, the major disposal related to the sale of Fortis Bank Nederland (Holding) – FBN(H) – and all its subsidiaries and participating interests (including the investment in RFS Holdings B.V., the company through which the acquisition of ABN AMRO was made). The contribution of FBN(H) in the first half of 2008 amounted to EUR 516 million and is recorded under net result from discontinued operations. The result related to non-core Asset Management entities amounted to EUR 24 million at 30 June 2008.

5. Supervision and solvency

5.1. Regulatory capital adequacy assessment

5.1.1. Framework

Fortis Bank, as a financial institution, is subject to regulatory supervision.

At a consolidated and statutory level, Fortis Bank is supervised by the BFIC (Banking, Finance and Insurance Commission). Fortis Bank's subsidiaries may also be subject to regulation by various supervisory authorities in the countries where the subsidiaries operate.

Regulators require banks to hold a minimum level of qualifying capital (8% of risk weighted assets). Since 2008, Fortis Bank has computed its qualifying capital and its risk weighted assets under the Basel II framework.

The BFIC has approved Fortis Bank's use of the most advanced approaches to calculate the risk-weighted assets under Basel II. These are the advanced internal ratings-based approach for credit risk and the advanced measurement approach for operational risk.

Qualifying capital for regulatory purpose is calculated at consolidation level based on IFRS accounting rules and taking into account prudential filters imposed by the BFIC, in line with the EU Capital Requirements Directive, as described in the BFIC Circular PPB 2007-1-CPB.

5.1.2. Capital adequacy assessment

The table below details the composition of the regulatory capital of Fortis Bank:

	30 June 2009 Basel-II	*31 December 2008 Basel-II*
Share capital and share premium	29.651	29.651
Reserves	(11.967)	8.612
Net profit attributable to shareholders	(39)	(20.302)
Minority interests	3.222	3.027
Translation difference	(469)	(401)
Hybrid non-innovative	1.315	1.579
(-) Goodwill	(1.933)	(1.886)
(-) Intangible assets	(302)	(365)
(-) Negative fair value on available for sale equities	(56)	(23)
(-) Deduction from Core Tier 1 capital (*)	(1.011)	(167)
(-) Other	(313)	(54)
Core Tier 1 capital	**18.098**	**19.671**
Hybrid innovative	1.994	1.993
Tier 1 capital	**20.092**	**21.664**
Subordinated loans	10.253	16.314
IRB provisions excess	-	167
Positive fair value on available for sale equities	-	-
(-) Deduction from Total Capital (*)	(1.011)	(167)
Other	99	94
Total capital	**29.433**	**38.072**
(*) Deductions 50% - 50% from Core Tier 1 & from Total capital	(2.023)	(335)
(1) Participations in credit & financial Institutions	*(290)*	*(322)*
(2) Participations in insurance companies	*(1.375)*	-
(3) IRB provisions shortfall	*(345)*	-
(4) IRB equity expected loss	*(13)*	*(13)*

The table below shows the key capital indicators:

	30 June 2009 Basel-II	*30 June 2009 Basel-I*	*31 December 2008 Basel-II*	*31 December 2008 Basel-I*
Tier 1 capital	20.092		21.664	21.402
Total capital	29.433		38.072	37.260
Risk-weighted assets	**166.388**	**199.796**	**203.405**	**220.260**
Credit risk	144.750	181.289	175.171	197.195
Market risk	11.040	18.507	13.945	23.065
Operational risk	10.598		14.289	
Core Tier 1 ratio	10,9%		9,7%	
Tier 1 ratio	12,1%		10,7%	9,7%
Total capital ratio	17,7%		18,7%	17,0%

As at 30 June 2009, Fortis Bank's Tier 1 ratio stood at 12.1% and its total capital ratio at 17.7%. A total capital ratio of 17.7% is well above the regulatory required minimum of 8%.

The decrease in capital over the first half-year is mainly due to the deduction of the participation acquired in AG Insurance (EUR 1,375 million), the impact of the net result, the implementation of prudential filters and the early repayment of subordinated loans due to Fortis Holding (EUR 5.75 billion).

There was a significant decrease in risk-weighted assets between 31 December 2008 and 30 June 2009. The decrease in credit and operational risks was mostly explained by the sale of part of the structured credit portfolio (SCI, so-called Portfolio Out) to Royal Park Investment (RPI) on 12 May 2009, in accordance with the Avenant No.3 of the Protocole d'Accord.
The decrease in market risk was due to the lower volatility in the financial markets in 2009.

According to Basel II regulations, capital requirements calculated under the Basel II advanced calculations framework cannot be less than 80% (2009) or 90% (2008) of the capital requirements calculated under Basel I regulations. Fortis Bank's Basel II capital requirements in both 2009 and 2008 were already 80% or 90% above the Basel I floor, so no further adjustments were required.

5.2. Capital Management objectives

Fortis Bank manages capital and risk, taking into account three main views as regards capital adequacy: the regulatory view, the rating view and the economic view. Those views are complemented with stress tests to secure external capital requirements.

In addition to the minimum total regulatory capital requirement of 8%, Fortis Bank has defined targets well above regulatory minimum to avoid breaching regulatory requirements even under severe market conditions. These targets are regularly reviewed to reflect material changes in strategy or market conditions.

6. Related parties

Parties related to Fortis Bank

Parties related to Fortis Bank as at 30 June 2009 include:

- parties that control or have an interest that gives them significant influence over Fortis Bank
- parties that are controlled by Fortis Bank
- associates and joint ventures
- other related entities such as non-consolidated subsidiaries and pension funds
- members of the Board of Directors of Fortis Bank
- close family members of any individual referred to above and
- entities controlled or significantly influenced by any individual referred to above

During the fourth quarter of 2008, 99.93% of Fortis Bank's shares were acquired by the Société Fédérale de Participations et d'Investissement / Federale Participatie- en Investeringsmaatschappij (SFPI/FPIM), the SFPI/FPIM being 100% owned by the Belgian State.

On 12 May 2009, the SFPI/FPIM sold 75% minus one share of its shareholding to BNP Paribas, which is now the major shareholder of Fortis Bank.

As a result, the following parties were related to Fortis Bank as at 30 June 2009:

- BNP Paribas (and all its subsidiaries), as having control of Fortis Bank
- SFPI/FPIM, as having a significant influence on Fortis Bank
- the Belgian State, as indirectly having a significant influence on Fortis Bank
- other Belgian state-controlled enterprises under common control (excluding local, regional and supra-national organisations, and local authorities and municipalities)

Given the diversity and significant number of the public bodies linked to the Belgian State, it was impracticable to identify all transactions with these bodies, therefore only the main organisations were taken into consideration.

Transactions between Fortis Bank and its subsidiaries, which are parties related to Fortis Bank, have been eliminated upon consolidation and are not disclosed in this note.

Transactions with members of the Board of Directors, their close family members or entities controlled or significantly influenced by any of them, are not referred to in this note. More information on transactions with members of the Board of Directors and their close family members in 2008 can be found in Note 12 of the Annual Report 2008 and will be updated in the Annual Report 2009.

Relations with the Belgian State, the National Bank of Belgium (NBB) and the SFPI/FPIM

Fortis Bank participates in a number of schemes contributing to liquidity that are operated by the National Bank of Belgium.

At 30 June 2009, Fortis Bank benefited from deposits made by the SFPI/FPIM amounting to EUR 55 million.

Fortis Bank also holds a significant investment portfolio of Belgian government bonds and treasury bills.

Transactions entered into with the Belgian State as at 30 June 2009 were as follows:

	30 June 2009	31 December 2008
Assets		
Balances at central banks	2,634	2,376
Debt securities	15,102	14,180
Derivatives	641	355
Loans and advances to customers	1,100	3,277
Loans and advances to banks	67	6,766
Other	842	1,245
Liabilities		
Customers accounts	115	5,283
Deposit by banks	17,799	37,250
Derivatives	2,820	1,991
Other	190	371

Relations with Belgian state-controlled enterprises and other state-related organisations
Fortis Bank supplies financial services to various Belgian state-controlled enterprises and to other related parties in the course of its business operations. These services mainly concern Public Banking (part of Merchant Banking) and do not represent a significant component of Fortis Bank's net revenue. The services provided encompass all the skills offered by Fortis Bank, including credit facilities, global market products, cash management, long- and short-term investment products.

The major transactions entered into with the most significant Belgian state-controlled enterprises as at 30 June 2009 were as follows:

	30 June 2009	31 December 2008
Assets		
Debt securities		4
Derivatives	15	13
Loans and advances to customers	82	60
Other	5	2
Liabilities		
Customers accounts	26	45
Other	1	2

Fortis Bank also received guarantees from Ducroire/Delcredere, Belgium's export credit agency.

Transactions with other related parties

Fortis Bank enters into transactions with various other related parties in the course of its business operations. Such transactions concern all kinds of transactions that are entered into under the same commercial and market terms and conditions that apply to non-related parties.

Transactions with other related parties concern transactions with:
- associates and joint ventures
- other related parties include affiliated companies, such as entities of the BNP Paribas Group, non-consolidated subsidiaries and pension funds; they exclude relations with the Belgian State, the National Bank of Belgium, Belgian state-controlled enterprises and other state-owned related parties

Guarantees and irrevocable and conditional commitments that Fortis Bank has made with respect to related parties at 30 June 2009 were as follows:
- EUR 16 million with respect to guarantees given to related parties
- EUR 123 million with respect to guarantees obtained from related parties
- EUR 197 million with respect to unconditional and conditional commitments to related parties

			2009			2008
	Associates and Joint ventures	*Other*	*Total*	*Associates and Joint ventures*	*Other*	*Total*
Income and expenses - Related parties						
Interest income	59	2,645	2,704	29		29
Interest expense	(17)	(2,694)	(2,711)	(35)		(35)
Fee and commission income	21	2	23	6		6
Realised and unrealised gains and losses	(15)	(428)	(443)			
Other income	5	2	7	18	7	25
Fee and commission expense	(33)	(1)	(34)	(29)		(29)
Operating, administrative and other expenses	(4)		(4)			

			2009			2008
	Associates and Joint ventures	*Other*	*Total*	*Associates and Joint ventures*	*Other*	*Total*
Balance sheet - Related parties						
Assets						
Investments		462	462	129	13	142
Due from customers	1,424	44	1,468	235	3	238
Due from banks	166	304	470	324		324
Other assets and other receivables	92	15,075	15,167	114		114
Liabilities						
Due to customers	1,951	6	1,957	72	1	73
Due to banks	499	11,203	11,702	384		384
Debt certificates, subordinated liabilities and other borrowings	249	1,212	1,461	249		249
Other liabilities	73	12,419	12,492	2		2

7. Information on segments

7.1. General information

Fortis Bank provides banking services to individual, business and institutional customers through its own distribution channels and via other partners. The primary format for the segment reporting is based on business segments.

Fortis Bank is organised into four businesses and a number of support functions, further subdivided into business segments (for details, see below):

- Retail Banking
- Asset Management
- Private Banking
- Merchant Banking

Activities not directly related to business activities and elimination differences are reported separately from the Banking activities.

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

Segment information is prepared based on the same accounting policies as those used in preparing and presenting Fortis Bank's Consolidated Financial Statements (as described in Note 1) and by applying appropriate allocation rules.

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

The segments will evolve in the second half of 2009, in line with the implementation of the industrial plan.

7.2. Business segments

Retail Banking

Retail Banking offers financial services to individuals, the self-employed, members of independent professions and small businesses. Over five million customers in five countries currently use our integrated banking and insurance services, through proprietary and third-party networks, all embedded in a multi-channel environment. Operating through a variety of distribution channels, in Belgium and Luxembourg we provide services and advice on every aspect of daily banking, savings, investment, credit and insurance to a clearly segmented customer base. Our extensive retail portfolio in Turkey is underpinned by a comprehensive and tailored product offering. Fortis Bank in Poland targets affluent customers and small businesses, while our Polish subsidiary Dominet is undergoing a rapid rollout of our consumer finance and mass retail business in this market. Our postal banking activities in Belgium – through Banque de La Poste – and in Ireland – via Postbank – allow us to offer an expanding product portfolio through the respective post office networks.

Asset Management

Fortis Investments (or Fortis Investment Management – FIM) is the asset manager of Fortis Bank. We have a global presence, with sales offices and 40 dedicated investment centres in Europe, the US and Asia. As a client-driven organisation, we offer international investment solutions, while meeting the requirements and needs of local investors, both institutional and wholesale/retail. As a diversified asset manager, our solutions-oriented approach provides our teams with the freedom and resources to investigate ideas and opportunities in every market and every asset class.

Private Banking

Private Banking offers integrated and international wealth management solutions to high net worth individuals, their businesses and their advisers. With offices in 14 countries, Private Banking helps its clients consolidate, preserve and transfer their wealth.

Merchant Banking

Merchant Banking offers tailored financial products and services to medium-sized European-oriented businesses, to large international companies and institutional clients with a focus on Europe, and in selected areas of North America and Asia. We have established a strong regional position for many of our products and skills.

Merchant Banking is composed of several business lines: Commercial Banking, Corporate & Public Banking, Energy, Commodities & Transportation, Global Markets, Investment Banking, Specialised Finance (with Leasing, Trade Finance and Cash Management), and Clearing, Funds & Custody.

Other Banking

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

Allocation rules

Segment reporting makes use of balance sheet allocation rules, balance sheet squaring mechanisms, a fund transfer pricing system, rebilling of support and operation expenses and overhead allocation. The balance sheet allocation and squaring methodology aim to report information on segments to reflect Fortis Bank's business model.

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

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

7.3. Balance sheet of business segments

	30 June 2009						
	Retail Banking	Asset Management	Private Banking	Merchant Banking	Other Banking	Eliminations	Total
Assets							
Cash and cash equivalents	490	2,412	351	34,740	1,403	(1,627)	37,769
Assets held for trading		15	34	70,833	190	(547)	70,525
Due from banks	5,244	2,303	451	75,408	25,218	(84,694)	23,930
Due from customers	103,724	4	13,718	265,756	90,814	(274,455)	199,561
Investments:							
- Held to maturity					*3,571*		3,571
- Available for sale	*240*	*30*	*7*	*14,423*	*50,936*	*(299)*	65,337
- Held at fair value through profit or loss	*1*	*367*		*1,476*	*1,424*	*(540)*	2,728
- Loans and Receivables				*15,633*	*8,081*	*(266)*	23,448
- Investment property				*597*	*98*	*(42)*	653
- Associates and joint ventures	*70*	*113*		*191*	*1,459*		1,833
	311	510	7	32,320	65,569	(1,147)	97,570
Trade and other receivables	15	131	21	2,485	313	(157)	2,808
Property, plant and equipment	31	51	24	620	2,987	(1,468)	2,245
Goodwill and other intangible assets	266	1,782	7	136	108	(45)	2,254
Assets classified as held for sale							
Current and deferred tax assets	80	195	24	1,061	2,115	(1,202)	2,273
Accrued interest and other assets	744	169	137	52,559	9,192	(5,451)	57,350
Total assets	**110,905**	**7,572**	**14,774**	**535,918**	**197,909**	**(370,793)**	**496,285**
Liabilities							
Liabilities held for trading		1	19	66,151		(157)	66,014
Due to banks	3,931	2,001	829	152,488	39,523	(101,216)	97,556
Due to customers	104,258	1,791	13,174	232,551	92,833	(253,240)	191,367
Debt certificates	763		129	34,398	19,857	(1,788)	53,359
Subordinated liabilities	58			4,117	12,466	(543)	16,098
Other borrowings	83			302	470	(341)	514
Provisions	86	64	33	754	873	(548)	1,262
Current and deferred tax liabilities	15	63	7	176	300	(77)	484
Accrued interest and other liabilities	1,711	3,652	583	44,981	13,640	(12,883)	51,684
Liabilities related to assets held for sale							
Total liabilities	**110,905**	**7,572**	**14,774**	**535,918**	**179,962**	**(370,793)**	**478,338**
Shareholders' equity					14,933		14,933
Minority interests					3,014		3,014
Total equity					**17,947**		**17,947**
Total liabilities and equity	**110,905**	**7,572**	**14,774**	**535,918**	**197,909**	**(370,793)**	**496,285**
Due from external customers	34,798	4	6,806	138,531	19,422		199,561
Due from internal customers	68,926		6,912	127,225	71,392	(274,455)	
Due from customers	**103,724**	**4**	**13,718**	**265,756**	**90,814**	**(274,455)**	**199,561**
Due to external customers	73,207	1,791	8,245	98,075	10,049		191,367
Due to internal customers	31,051		4,929	134,476	82,784	(253,240)	
Due to customers	**104,258**	**1,791**	**13,174**	**232,551**	**92,833**	**(253,240)**	**191,367**

31 December 2008

	Retail Banking	Asset Management	Private Banking	Merchant Banking	Other Banking	Eliminations	Total
Assets							
Cash and cash equivalents	818	3,532	471	18,493	2,359	(3,029)	22,644
Assets held for trading		14	63	88,751	250	(646)	88,432
Due from banks	1,220	2,309	147	123,689	24,915	(105,237)	47,043
Due from customers	99,292	5	12,825	271,149	91,036	(258,677)	215,630
Investments:							
- Held to maturity					*3,851*		3,851
- Available for sale	*119*	*25*	*7*	*39,862*	*61,744*	*(563)*	101,194
- Held at fair value through profit or loss	*1*	*168*		*2,407*	*798*	*(546)*	2,828
- Investment property				*613*	*103*	*(44)*	672
- Associates and joint ventures	*175*	*36*		*225*			436
	295	229	7	43,107	66,496	(1,153)	108,981
Trade and other receivables	4	202	19	5,131	998	(674)	5,680
Property, plant and equipment	28	46	26	631	3,052	(1,502)	2,281
Goodwill and other intangible assets	271	1,493	8	148	137	(65)	1,992
Assets classified as held for sale		733		5			738
Current and deferred tax assets	50	126	20	311	3,713	(1,766)	2,454
Accrued interest and other assets	607	126	48	87,159	8,950	(5,988)	90,902
Total assets	**102,585**	**8,815**	**13,634**	**638,574**	**201,906**	**(378,737)**	**586,777**
Liabilities							
Liabilities held for trading		2	83	86,331	198	(305)	86,309
Due to banks	3,518	2,102	1,845	200,330	46,049	(119,927)	133,917
Due to customers	97,379	2,611	11,618	266,970	84,714	(245,477)	217,815
Debt certificates	207		74	31,756	19,330	(1,750)	49,617
Subordinated liabilities	29	167		3,924	18,588	(776)	21,932
Other borrowings	6			378	639	(458)	565
Provisions	115	66	87	807	660	(404)	1,331
Current and deferred tax liabilities	24	96	12	215	283	(105)	525
Accrued interest and other liabilities	1,307	3,666	(85)	47,863	16,302	(9,535)	59,518
Liabilities related to assets held for sale		105					105
Total liabilities	**102,585**	**8,815**	**13,634**	**638,574**	**186,763**	**(378,737)**	**571,634**
Shareholders' equity					12,363		12,363
Minority interests					2,780		2,780
Total equity					**15,143**		**15,143**
Total liabilities and equity	**102,585**	**8,815**	**13,634**	**638,574**	**201,906**	**(378,737)**	**586,777**
Due from external customers	35,189	5	6,756	150,824	22,856		215,630
Due from internal customers	64,103		6,069	120,325	68,180	(258,677)	
Due from customers	**99,292**	**5**	**12,825**	**271,149**	**91,036**	**(258,677)**	**215,630**
Due to external customers	65,329	2,611	7,099	131,378	11,398		217,815
Due to internal customers	32,050		4,519	135,592	73,316	(245,477)	
Due to customers	**97,379**	**2,611**	**11,618**	**266,970**	**84,714**	**(245,477)**	**217,815**

7.4. Income statement of business segments

							30 June 2009
	Retail Banking	*Asset Management*	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total*
Income							
Interest income	3.380	(12)	203	36.638	4.210	(9.355)	35.064
Interest expense	(2.345)	(24)	(143)	(35.564)	(4.180)	9.355	(32.901)
Net interest income	1.035	(36)	60	1.074	30		2.163
Fee and commission income	466	615	125	440	31	(116)	1.561
Fee and commission expense	(113)	(326)	(17)	(216)	(30)	116	(586)
Net fee and commission income	353	289	108	224	1		975
Dividend, share in result of associates and joint ventures and other investment income	8	22	1	51	24		106
Realised capital gains (losses) on investments	4			2	29		35
Other realised and unrealised gains and losses	6	(6)	5	219	150	(1)	373
Other income	23	4	7	93	53	(16)	164
Allocation income	64	1	6	40	(111)		
Total income, net of interest expense	**1.493**	**274**	**187**	**1.703**	**176**	**(17)**	**3.816**
Change in impairments	(144)	(9)	(20)	(586)	(32)		(791)
Net revenues	**1.349**	**265**	**167**	**1.117**	**144**	**(17)**	**3.025**
Expenses							
Staff expenses	(483)	(118)	(72)	(468)	(417)		(1.558)
Depreciation and amortisation of tangible and intangible assets	(15)	(34)	(3)	(54)	(113)		(219)
Other expenses	(130)	(98)	(36)	(307)	(516)	17	(1.070)
Allocation expense	(526)	(5)	(69)	(228)	828		
Total expenses	**(1.154)**	**(255)**	**(180)**	**(1.057)**	**(218)**	**17**	**(2.847)**
Profit before taxation	**195**	**10**	**(13)**	**60**	**(74)**		**178**
Income tax expense	(91)	30	2	75	(114)		(98)
Net profit for the period	**104**	**40**	**(11)**	**135**	**(188)**		**80**
Net gain (loss) on discontinued operations							
Net profit before minority interests	**104**	**40**	**(11)**	**135**	**(188)**		**80**
Net profit attributable to minority interests		1			96		97
Net profit attributable to shareholders	**104**	**39**	**(11)**	**135**	**(284)**		**(17)**
Net revenues from external customers	534	295	141	823	1.232		3.025
Net revenues internal	815	(30)	26	294	(1.088)	(17)	
Net revenues	**1.349**	**265**	**167**	**1.117**	**144**	**(17)**	**3.025**

							30 June 2008
	Retail Banking	*Asset Management*	*Private Banking*	*Merchant Banking*	*Other Banking*	*Eliminations*	*Total*
Income							
Interest income	4.845	15	377	55.550	7.521	(20.062)	48.246
Interest expense	(3.744)	(77)	(315)	(54.581)	(7.612)	20.062	(46.267)
Net interest income	1.101	(62)	62	969	(91)		1.979
Fee and commission income	475	654	160	538	41	(57)	1.811
Fee and commission expense	4	(381)	(15)	(258)	(53)	56	(647)
Net fee and commission income	479	273	145	280	(12)	(1)	1.164
Dividend, share in result of associates and joint ventures and other investment income	5	8	6	68	92		179
Realised capital gains (losses) on investments	44	2	2	29	119		196
Other realised and unrealised gains and losses	23	27	10	901	92		1.053
Other income	26	15	9	73	40	(5)	158
Allocation income	181		14	145	(341)	1	
Total income, net of interest expense	**1.859**	**263**	**248**	**2.465**	**(101)**	**(5)**	**4.729**
Change in impairments	(56)	(3)	(2)	(976)	(18)		(1.055)
Net revenues	**1.803**	**260**	**246**	**1.489**	**(119)**	**(5)**	**3.674**
Expenses							
Staff expenses	(501)	(135)	(81)	(586)	(333)		(1.636)
Depreciation and amortisation of tangible and intangible assets	(17)	(27)	(3)	(50)	(123)		(220)
Other expenses	(131)	(92)	(30)	(242)	(409)	5	(899)
Allocation expense	(532)	(4)	(66)	(208)	810		
Total expenses	**(1.181)**	**(258)**	**(180)**	**(1.086)**	**(55)**	**5**	**(2.755)**
Profit before taxation	**622**	**2**	**66**	**403**	**(174)**		**919**
Income tax expense	(191)	6	(14)	(102)	49	(1)	(253)
Net profit for the period	**431**	**8**	**52**	**301**	**(125)**	**(1)**	**666**
Net gain (loss) on discontinued operations		24			516		540
Net profit before minority interests	**431**	**32**	**52**	**301**	**391**	**(1)**	**1.206**
Net profit attributable to minority interests		8			6		14
Net profit attributable to shareholders	**431**	**24**	**52**	**301**	**385**	**(1)**	**1.192**
Net revenues from external customers	814	309	155	2.165	231		3.674
Net revenues internal	989	(49)	91	(676)	(350)	(5)	
Net revenues	**1.803**	**260**	**246**	**1.489**	**(119)**	**(5)**	**3.674**

Notes to the balance sheet

8. Assets and liabilities held for trading

8.1. Assets held for trading

The following table provides a specification of the Assets held for trading.

	30 June 2009	*31 December 2008*
Securities held for trading:		
Treasury bills and other eligible bills	1,820	1,205
Debt securities:		
- Government bonds	5,386	5,721
- Corporate debt securities	2,721	3,068
- Structured credit instruments	20	682
Equity securities	4,833	5,167
Total trading securities	**14,780**	**15,843**
Trading derivatives		
Over the counter (OTC)	54,962	71,280
Exchange traded	705	855
Total trading derivatives	**55,667**	**72,135**
Other assets held for trading	78	454
Total assets held for trading	**70,525**	**88,432**

The significant decrease in structured credit instruments between 31 December 2008 and 30 June 2009 is primarily attributable to the sale of the structured credit portfolio to Royal Park Investments, a special purpose vehicle (SPV) incorporated on 20 November 2008. The details of the sale can be found in Note 11.4, Structured credit instruments.

In addition, a part of the structured credit portfolio was reclassified at 30 June 2009 as investments classified as loans and receivables instead of assets held for trading. The details of this transfer are further explained in Note 11.5, Investments reclassified as loans and receivables.

The appreciable decline in derivatives held for trading is due to the decrease in the fair value of the derivatives and also the reduction in trading derivatives positions.

8.2. Liabilities held for trading

The table below shows the composition of Liabilities held for trading.

	30 June 2009	*31 December 2008*
Short security sales	8,753	10,730
Trading derivatives		
Over the counter (OTC)	56,933	74,863
Exchange traded	328	706
Total trading derivatives	57,261	75,569
Other liabilities held for trading		10
Total liabilities held for trading	**66,014**	**86,309**

9. Due from banks

Due from banks consists of the following:

	30 June 2009	31 December 2008
Interest-bearing deposits	3,694	17,968
Loans and advances	4,792	8,566
Reverse repurchase agreements	10,682	14,895
Securities borrowing transactions	2,657	2,271
Mandatory reserve deposits with central banks	2,174	2,994
Held at fair value through profit or loss	1	
Other	487	648
Fair value adjustments from hedge accounting		
Total	**24,487**	**47,342**
Less impairments:		
- specific credit risk	(535)	(281)
- incurred but not reported (IBNR)	(22)	(18)
Due from banks	**23,930**	**47,043**

The impairments for specific credit risk and incurred but not reported (IBNR) on credit commitments to banks were below EUR 1 million as at 30 June 2009 as well as at 31 December 2008.

10. Due from customers

Due from customers consists of the following:

	30 June 2009	31 December 2008
Government and official institutions	4,628	4,155
Residential mortgage	34,870	34,006
Consumer loans	7,474	7,057
Commercial loans	109,359	114,872
Reverse repurchase agreements	25,620	36,274
Securities borrowing transactions	6,096	6,576
Financial lease receivables	11,753	12,187
Factoring	1	1
Other loans	677	797
Loans available for sale	101	174
Held at fair value through profit or loss	1,574	1,655
Fair value adjustment from hedge accounting	326	265
Total	**202,479**	**218,019**
Less impairments:		
- specific credit risk	(2,330)	(2,077)
- incurred but not reported (IBNR)	(588)	(312)
Due from customers	**199,561**	**215,630**

Harmonisation of effectiveness testing for hedge accounting is dealt with in Note 19, Other realised and unrealised gains and losses.

A gross amount of EUR 21 million unrealised loss previously reported under loans available for sale was transferred to equity at 30 June 2009. Of this, EUR 12 million was related tax, so the net unrealised loss amounted to EUR 9 million.

Impairments of credit commitments to customers are as follows:

	30 June 2009	31 December 2008
- Specific credit risk	613	695
- Incurred but not reported (IBNR)	75	77
Total impairments	**688**	**772**

11. Investments

Investments consist of the following:

	30 June 2009	31 December 2008
Investments		
- Held to maturity	3,571	3,851
- Available for sale	65,982	109,972
- Held at fair value through profit or loss	2,728	2,828
- Reclassified as loans and receivables	23,450	
- Investment property	659	678
- Associates and joint ventures	1,859	456
Total gross	**98,249**	**117,785**
Impairments:		
- on investments available for sale	(645)	(8,778)
- on investments reclassified as loans and receivables	(2)	
- on investment property	(6)	(6)
- on investments in associates and joint ventures	(26)	(20)
Total impairments	**(679)**	**(8,804)**
Total	**97,570**	**108,981**

There were no impairments of held-to-maturity investments at 30 June 2009 or 31 December 2008.

11.1. Investments available for sale

The fair value and amortised cost of Fortis Bank's investments available for sale, including gross unrealised gains and losses were as follows:

	Historical/ amortised cost	*Gross unrealised gains*	*Gross unrealised losses*	*Fair value adjustments from hedge accounting*	*Impairments*	*Fair value*
30 June 2009						
Treasury bills and other eligible bills	285	1				286
Government bonds	46,515	1,169	(752)	355	(11)	47,276
Corporate debt securities	17,187	354	(897)	47	(189)	16,502
Structured credit instruments	915		(64)		(353)	498
Private equities and venture capital	40	6	(8)	(1)	(3)	34
Equity securities	662	35	(102)	(4)	(18)	573
Other investments	217	22			(71)	168
Total	**65,821**	**1,587**	**(1,823)**	**397**	**(645)**	**65,337**

31 December 2008	Historical/ amortised cost	Gross unrealised gains	Gross unrealised losses	Fair value adjustments from hedge accounting	Impairments	Fair value
Treasury bills and other eligible bills	371	1				372
Government bonds	51,025	1,122	(994)	527	(3)	51,677
Corporate debt securities	19,910	256	(753)	43	(140)	19,316
Structured credit instruments	42,774	6	(5,463)	(3)	(8,496)	28,818
Private equities and venture capital	43	8	(7)		(2)	42
Equity securities	901	49	(46)	(10)	(73)	821
Other investments	212	4	(4)		(64)	148
Total	**115,236**	**1,446**	**(7,267)**	**557**	**(8,778)**	**101,194**

The significant decrease in structured credit instruments between 31 December 2008 and 30 June 2009 was firstly due to the sale of part of the structured credit portfolio to Royal Park Investments (details of the sale can be found in Note 11.4, Structured credit instruments).

Secondly, structured credit instruments (SCI) were reclassified at 30 June 2009 to loans and receivables instead of available for sale. Further details of this reclassification can be found in Note 11.5, Investments reclassified as loans and receivables.

11.2. Net unrealised gains and losses on available for sale investments included in equity

	30 June 2009	31 December 2008
Available for sale investments in equity securities and other investments:		
Carrying amount	775	1,011
Gross unrealised gains and losses	(47)	5
- Related tax	2	(18)
Net unrealised gains and losses	**(45)**	**(13)**
Available for sale investments in debt securities:		
Carrying amount	64,562	100,183
Gross unrealised gains and losses	(189)	(5,825)
- Related tax	12	655
Net unrealised gains and losses	**(177)**	**(5,170)**

Available for sale investments reported in equity securities and other investments, also include private equity and venture capital and all other investments, excluding debt securities.

The significant decrease in unrealised gains and losses in equity on available for sale investments (debt securities) is mainly the result of reclassifying structured credit instruments (SCI), which were accounted for as available for sale, as loans and receivables which are now measured at amortised cost. The details of the reclassification can be found in Note 11.5, Investments reclassified as loans and receivables.

As at 30 June 2009, the structured credit instruments (SCI), previously classified as available for sale and now reclassified as loans and receivables, had unrealised losses of EUR 2,636 million (of which EUR 432 million was related tax) in equity. These amounts will be released from equity to the income statement on an effective interest rate basis over the remaining life of the securities.

11.3. Investments held at fair value through profit or loss

The following table provides information about the investments that are held at fair value and on which unrealised gains or losses are recorded through profit or loss.

	30 June 2009	*31 December 2008*
Corporate debt securities	35	48
Structured credit instruments	582	1,523
Private equities and venture capital	874	825
Equity securities	316	177
Other investments	921	255
Total investments held at fair value through profit or loss	**2,728**	**2,828**

11.4. Structured credit instruments

Fortis Bank holds as part of its investment portfolio so-called structured credit instruments (SCI). Structured credit instruments are securities, created by repackaging cash flows from financial products, and encompassing asset-backed securities (ABS), mortgage-backed securities (MBS) and collateralised debt obligations (CDOs). The exposure to structured credit instruments is categorised in the Consolidated Interim Financial Statements and as such included in investments available-for-sale, investments reclassified as loans and receivables, investments held at fair value through profit or loss, assets held for trading and due from customers.

Net exposure to structured credit instruments at 30 June 2009 was as follows:

	30 June 2009		31 December 2008	
	Total net exposure excl. SPE assets	Total net exposure incl. SPE assets	Total net exposure excl. SPE assets	Total net exposure incl. SPE assets
SCI under Assets held for trading (note 8)	20	305	682	883
SCI under Due from Customers (loans available for sale) (note 10)	101	101	174	174
SCI under Investments available for sale (note 11.1)	498	498	28.818	29.088
SCI under Investments held at fair value trough profit or loss (note 11.3)	582	582	1.523	1.523
SCI under Loans and receivables (note 11.5)	23.448	24.189		
Other			4.141	4.141
Total	**24.649**	**25.675**	**35.338**	**35.809**

Part of the portfolio structured credit instruments (the so-called Portfolio Out) has been sold to a special purpose vehicle Royal Park Investments SA/NV (RPI). RPI was incorporated pursuant to the Protocole d'Accord, subsequently amended by Avenant No.3 dated 12 March 2009, entered into by BNP Paribas, the Belgian State, the SFPI/FPIM, Fortis, Fortis Bank and others. RPI is jointly owned by Fortis (45%), the Belgian State (43%) and BNP Paribas (12%).

The sale of the Portfolio Out to RPI took place on 12 May 2009 based on a valuation of the underlying instruments as at 31 August 2008. This portfolio was sold for EUR 11.7 billion (carrying amount as of date of sale). The price took into account redemptions and exchange rate fluctuations between 31 August 2008 and 12 May 2009. The corresponding face value (nominal value minus redemptions) of the portfolio as of date of sale amounted to EUR 20.2 billion.

In the second quarter of 2009, a substantial part of the retained SCI portfolio was transferred to investments reclassified as loans and receivables, applying the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (see Note 11.5, Loans and receivables). This reclassification concerned financial assets that were previously recognised as available for sale investments, assets held for trading and other assets. The reclassification of these financial assets reflects the change in intent and ability of Fortis Bank to hold these financial assets in the foreseeable future.

At 31 December 2008, 'Other' included mainly the asset pools of Scaldis, as reported under other assets. Scaldis is fully consolidated with Fortis Bank and is a conduit that purchases eligible assets from investment grade, non-investment grade and unrated sellers. The asset pools contained continuous financing of third-party clients' assets, such as consumer and auto loans, trade receivables, mortgages and lease receivables. Part of these pools has been transferred synthetically to RPI and the remainder has been transferred to loans and receivables.

The part transferred to loans and receivables is measured at amortised cost and the credit risk assessment, which could lead to eventual further impairment, will be made on the basis of the present value of estimated future cash flows (and no longer on the basis of fair value movements). The remaining structured credit instruments (not transferred to loans and receivables) are measured at fair value. The fair value measurement of these financial assets can be categorised based on the valuation methods applied:

- category 1: fair values determined directly, in whole or in part, by reference to published price quotations in an active market
- category 2: fair values determined, in whole or in part, using a valuation technique based on assumptions that are supported by available observable market data
- category 3: fair values determined, in whole or in part, using a valuation technique based on assumptions that are not supported by available observable market data

Categorisation within the fair value hierarchy is based on the lowest level of input that is significant for the fair value measurement.

The following table shows the remaining structured credit instruments measured at fair value by category of fair value measurement, indicating the transparency of the inputs to measure the fair value as at 30 June 2009 and as at 31 December 2008.

	30 June 2009	31 December 2008
Category 1	22%	0%
Category 2	19%	97%
Category 3	59%	3%

The percentages shown are based on net exposure including the assets held by special purpose entities of Fortis Bank.

Over the past two years, liquidity in the structured credit instruments markets has significantly deteriorated. The result has been a declining quality in price information and a lower turnover as time has progressed.

In this context it has become increasingly difficult to maintain a market oriented valuation technique based on quoted prices for either identical (level 1) or comparable (level 2) securities. Actually, significant adjustments are required and an income approach relying upon a present value technique that maximises the use of observable inputs is more adequate to determine the fair value for the majority of the assets in portfolio.

The level 3 model approach applied consists in discounting future estimated cash flows. The estimation of the cash flows is based on the risk quality of the underlying assets with discount factor depending on the rating of the ABS tranches. Under this level 3 method, all individual lines are valued based on a weighted average between the value determined by the application of the model and the external prices available (blending principle). As a general rule, the weight is based 85% on model and 15% on external prices.

Other portfolios continue to be valued on external price indication, but based on a wider range of extended information sources. A portfolio of US agency RMBS that are liquid, are valued as level 1 by using directly market quotes.

Uncertainties in non-active markets concerning structured credit instruments (in terms of rating evolutions and estimates of expected losses on the underlying assets) are reflected as model reserves in the valuation of SCI reported as Held at Fair Value through profit or loss (EUR 130 million at 30 June 2009).

The impairment losses on structured credit instruments are reported in the income statement under change in Impairments (Note 20). As is the case for other financial assets, Fortis Bank applies a two-step approach to the impairment testing of structured credit instruments. Firstly an assessment is made to determine the existence of objective evidence that the financial asset is impaired, followed by recognition and measurement of the impairment loss. The assessment of objective evidence is based on observable data ("triggers") on loss events.

Fortis Bank established the following mandatory triggers related to structured credit instrument and potentially leading to impairment:

- for all tranches, any event of default under the indenture for the issuing CDO
- downgrade of the tranche to non – investment grade

If a mandatory trigger occurs, the instrument is considered impaired.

Judgemental triggers are based, among other factors, on the level of decrease in fair value in comparison with the acquisition price of the instrument. If a judgemental trigger occurs, further credit quality analysis will be undertaken to decide on the status (impaired or not) of the instrument.

Fortis Bank identifies the impaired status of the individual assets in the credit spread portfolio by performing a credit analysis on the portfolio. For the purpose of impairment tests, Risk Management has developed certain stress scenarios and assessment criteria, taking into account the characteristics of the different product types.

Fortis Bank decided in the second quarter of 2009 to remove the obligatory trigger related to downgrades below investment grade. Reasons for this decision were that stress scenarios or assessment criteria for certain assets below investment grade were not leading to an impairment decision, based on a credit risk analysis.

Uncertainties in non-active markets concerning structured credit instruments (in terms of rating evolutions and estimates of expected losses on the underlying assets) are reflected as a collective provision related to SCI reclassified as Loans and receivables (EUR 222 million at 30 June 2009).

If an investment classified as available for sale is impaired, the total difference between the acquisition cost and the current fair value of the instrument will be recognised as an impairment loss in the income statement.

In the case of investments reclassified as loans and receivables impairments are limited to the losses reflecting the deterioration of the credit quality and are no longer reflecting the other changes in the fair value of the investments.

Fair value changes in structured credit instruments reported as assets held for trading or investments held at fair value through profit or loss (the non-transferred part) are shown under other realised and unrealised gains and losses in the income statement (Note 19).

11.5. Investments reclassified as loans and receivables

Applying the amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures (see Note 1.3.4, Changes in classifications), Fortis Bank opted to reclassify certain financial assets as investments reclassified as loans and receivables on 12 May 2009, instead of available-for-sale investments, assets held for trading, and other assets. The reclassification of these financial assets reflects the change in intent and ability of Fortis Bank to hold these financial assets in the foreseeable future.

Financial assets that have been reclassified as loans and receivables are initially recognised at their fair value on the date of reclassification which became their new cost base at that date. Subsequent measurement is at amortised cost.

The assets that were reclassified in the second quarter of 2009 are summarised in the following table:

	Carrying amount as of reclassification date	Carrying amount as of 30 June 2009	Fair value as of 30 June 2009
Held for trading portfolio assets reclassified as loans and receivables	108	108	105
Available for sale portfolio assets reclassified as loans and receivables	21,312	21,310	21,145
Other assets reclassified as loans and receivables	2,030	2,030	2,030
Total financial assets reclassified to Loans and receivables	**23,450**	**23,448**	**23,280**

The following table shows the impact of the reclassified assets on the income statement since the reclassification date.

	SInce reclassification date
Effect on income statement :	
Interest income	144
Change in impairment	(2)

The table below shows the fair value gain or loss related to the reclassified assets that would have been recorded in equity or income statement (between the reclassification date and 30 June 2009) if the reclassification had not taken place.

Change in fair value that would have been recognised in income statement or equity if the assets had not been reclassified :	*30 June 2009*
- in income statement	5
- in equity	(65)

11.6. Investment property

Investment property mainly comprises residential, commercial and mixed-use real estate, located primarily in the Benelux countries. The fair value of investment property is set out as follows:

	30 June 2009	*31 December 2008*
Fair value supported by market evidence	305	302
Fair value subject to an independent valuation	481	483
Total fair value of investment property	**786**	**785**
Total carrying amount of investment property	653	672
Gross unrealised gain/loss	133	113
Taxation	(40)	(36)
Net unrealised gain/loss (not recognised in equity)	**93**	**77**

12. Due to banks

Due to banks consists of the following components:

	30 June 2009	31 December 2008
Deposits from banks:		
Demand deposits	6,294	9,491
Time deposits	30,258	39,262
Deposits from central banks	228	9,205
Total deposits	**36,780**	**57,958**
Repurchase agreements	35,056	44,940
Securities lending transactions	2,221	2,313
Advances against collateral	22,865	27,783
Held at fair value through profit or loss	27	315
Other	607	608
Total due to banks	**97,556**	**133,917**

13. Due to customers

Due to customers consists of the following components:

	30 June 2009	31 December 2008
Demand deposits	54,546	58,823
Saving deposits	44,887	35,506
Time deposits	46,306	47,374
Other deposits	77	50
Total deposits	**145,816**	**141,753**
Repurchase agreements	43,296	73,635
Securities lending transactions	825	943
Other borrowings	331	378
Held at fair value through profit or loss	1,099	1,106
Total due to customers	**191,367**	**217,815**

Notes to the income statement

14. Interest income

The breakdown of interest income by type of product is as follows:

	30 June 2009	30 June 2008
Interest income		
Interest income on cash equivalents	179	543
Interest income on due from banks	385	3,356
Interest income on investments	1,742	2,554
Interest income on investments reclassified as loans and receivables	144	
Interest income on due from customers	4,162	5,621
Interest income on derivatives held for trading	28,062	35,067
Other interest income	390	1,105
Total interest income	**35,064**	**48,246**

15. Interest expenses

The following table shows the breakdown of Interest expense by product.

	30 June 2009	30 June 2008
Interest expenses		
Interest expenses due to banks	736	4,380
Interest expenses due to customers	1,744	3,534
Interest expenses on debt certificates	766	1,561
Interest expenses on subordinated liabilities	568	556
Interest expenses on other borrowings	19	43
Interest expenses on liabilities held for trading and derivatives	28,580	35,608
Interest expenses on other liabilities	488	585
Total interest expenses	**32,901**	**46,267**

16. Fee and commission income

Fee and commission income was as follows:

	30 June 2009	30 June 2008
Fee and commission income		
Securities and custodian services	312	395
Insurance	158	143
Asset management	690	799
Payment services	184	225
Guarantees and commitments	125	138
Other	92	111
Total fee and commission income	**1,561**	**1,811**

17. Fee and commission expenses

Fee and commission expenses were as follows:

	30 June 2009	*30 June 2008*
Fee and commission expenses		
Securities	123	114
Agents	91	87
Asset management	223	261
Payment services	52	62
Custodian services	7	5
Other	90	118
Total fee and commission expenses	**586**	**647**

18. Realised capital gains (losses) on investments

Realised capital gains (losses) on investments are broken down as follows:

	30 June 2009	30 June 2008
Realised capital gains (losses) on investments		
Debt securities	(3)	189
Investments reclassified as loans and receivables		
Equity securities	16	(68)
Real estate	6	72
Subsidiaries, associates and joint ventures	8	3
Other	8	
Realised capital gains (losses) on investments	**35**	**196**

19. Other realised and unrealised gains and losses

Other realised and unrealised gains and losses included in the income statement are stated below.

	30 June 2009	30 June 2008
Other realised and unrealised gains and losses		
Assets/liabilities held for trading	539	325
Assets and liabilities held at fair value through profit or loss	79	817
Hedging results	(162)	(119)
Cash flow hedging ineffectiveness	(1)	
Net result on fair value hedging instruments	(9)	99
Net result on fair value hedged items (attributable to the hedged risk)	(152)	(218)
Net Investment hedging ineffectiveness		
Other	(83)	30
Other realised and unrealised gains and losses	**373**	**1,053**

Fortis Bank harmonised its effectiveness testing methodology for hedge accounting with BNP Paribas with effect from 12 May 2009. A number of hedge relationships were discontinued at that date and new hedges set up. The impact of the harmonisation of methodology involves two elements:

- fair value adjustments to the hedged instruments in the old hedge relationship that were stopped
- new starting difference (reversed amortisation) between the fair value and the carrying amount of the hedged instruments in the new hedges

20. Change in impairments

Changes in impairments were as follows:

	30 June 2009	30 June 2008
Change in impairments on:		
Cash and cash equivalents	(1)	2
Due from banks	25	9
Due from customers	715	150
Credit commitments - banks		
Credit commitments - customers	(27)	34
Investments reclassified to loans and receivables	2	
Investments in debt securities	(7)	823
Investments in equity securities and other	7	10
Investment property		
Investments in associates and joint ventures	6	
Other receivables	41	3
Property, plant and equipment		1
Goodwill and other intangible assets	9	18
Accrued interest and other assets	21	5
Total change in impairments	**791**	**1,055**

Fortis Bank applies a two-step approach to the impairment testing process for financial instruments. Firstly, an assessment is made to see if objective evidence exists that a financial asset is impaired, followed by the recognition and measurement of an impairment loss. The assessment of objective evidence is based on observable data ('triggers') about loss events.

Impairment losses reported under investments in debt securities in 2008 mainly related to structured credit instruments (SCI) and more specifically to US subprime residential mortgage-related assets. The anticipation of the sale of part of the structured credit instruments portfolio (Portfolio Out) to Royal Park Investments SA/NV (RPI), led to a reversal of impairments in 2009. Changes in accounting estimates and valuations also contributed to the decrease of the level of impairments in the first half of 2009.

The significant increase in impairment losses in due from customers in 2009 reflects mainly the overall credit deterioration in commercial loans.

Notes to off-balance sheet items

21. Assets under management

Assets under management include investments for own account and funds under management. Funds under management are investments that are managed on behalf of clients, either private or institutional, and on which Fortis Bank earns a management or advice fee. Discretionary capital (capital actively managed by Fortis Bank) and advisory capital are included in funds under management.

Eliminations in the various tables relate to clients' funds under management invested in funds managed by Fortis Bank that otherwise would be accounted for twice.

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

	30 June 2009	31 December 2008
Investments for own account:		
- Debt securities	92,198	105,605
- Equity securities	1,956	2,001
- Real estate	653	672
- Other	2,763	703
Total investments for own account	**97,570**	**108,981**
Funds under Management:		
- Debt securities	117,667	130,118
- Equity securities	83,130	85,888
- Real estate	3,849	280
- Eliminations	(6,256)	(7,537)
Total funds under management	**198,390**	**208,749**
Total assets under management	**295,960**	**317,730**

22. Contingent assets and liabilities

22.1. Legal proceedings

Fortis Bank (plus its consolidated subsidiaries) is involved as a defendant in various claims, disputes and legal proceedings in Belgium and in a number of foreign jurisdictions, arising in the ordinary course of the banking business, including in connection with its activities as lender, employer, investor and taxpayer.

Fortis Bank makes provisions for such matters when in the opinion of management, after consulting legal advisors, it is probable that a payment will have to be made by Fortis Bank, and when the amount can be reasonably estimated.

With respect to further claims and legal proceedings against Fortis Bank (and its consolidated subsidiaries) of which management is aware (and for which, according to the principles outlined above, no provision has been made), management is of the opinion after due consideration of appropriate professional advice that, while it is often not feasible to predict or determine the ultimate outcome of all pending or threatened legal and regulatory proceedings, such proceedings are without merit, can be successfully defended or that the outcome of these actions is not expected to result in a significant loss in the Fortis Bank Consolidated Financial Statements.

These legal proceedings include:

- In the Netherlands, Fortis Bank is involved in a number of legal proceedings, initiated either by individuals or by consumer protection associations, concerning the products (equity lease products) of GroeiVermogen, a subsidiary of Fortis Investments, which is itself a subsidiary of Fortis Bank. The claims are based on one or more of the following allegations: violation of duty of care, absence of a second signature and absence of a licence to sell the products concerned. The present assessment of the legal risk involved in these proceedings has not given rise to any material provisions being set up within Fortis Bank.

- A proceeding is pending in the New York State Court against Fortis Securities LLC and Fortis Bank. In this action, involving a claim for USD 175 million, the plaintiff alleges, among other things, breach of contract, tortuous interference with contract and fraudulent inducement, and demands damages for failure to underwrite a warehouse facility. Fortis Securities LLC and Fortis Bank are contesting the claim and the claim gave no rise to provisions at 30 June 2009.

- Furthermore, following the significant decrease in market value of Fortis (referring to both Fortis SA/NV and Fortis N.V.) shares following the capital increase by Fortis on 26 June 2008 and the restructuring of the Fortis group at the end of September and beginning of October 2008, a number of groups representing minority shareholders have initiated (or threatened) legal action against various entities of the former Fortis group and/or certain members of their Boards of Directors and management. These legal actions include:
  - A class action has been filed against, among others, Fortis Bank, one of its directors and former directors of Fortis Bank, in the US District Court of the Southern District of New York , demanding damages for alleged securities fraud committed in the period between 17 September 2007 and 14 October 2008.
  - Furthermore, on 28 January 2009, a writ of summons was served on Fortis Bank (as well as on Fortis and other entities of the Fortis group, the State of the Netherlands, the SFPI/FPIM sa/nv, BNP Paribas s.a. and De Nederlandsche Bank N.V.) by a number of minority shareholders of Fortis represented by lawyer Mischaël Modrikamen. With respect to Fortis Bank, the plaintiffs request the Commercial Court of Brussels, in addition to some interim relief measures, to (i) annul the decision of the Board of Directors of Fortis Bank on 29 September 2008 to the extent that it determined the number of Fortis Bank shares that were issued on the occasion of the capital increase of Fortis Bank subscribed to by the SFPI/FPIM sa/nv and (ii) annul the decision of the Board of Directors of Fortis Bank and the agreements that were entered into pursuant thereto relating to the sale of Fortis Bank (Nederland) N.V. In the event that the latter annulment is not granted, the plaintiffs request that the Kingdom of the Netherlands and De Nederlandsche Bank pay an indemnity of EUR 5 (to be increased with interest as from 3 October 2008) per Fortis share held by the plaintiffs. The plaintiffs also request the Court to annul the decision by Fortis to sell, and the subsequent sale by Fortis of, its participating interest in Fortis Bank or alternatively, if such annulment cannot be declared, to order the SFPI/FPIM and BNP Paribas to pay to the plaintiffs an indemnity of EUR 4 (with interest added as from 3 October 2008) per Fortis share held. This litigation is still pending.

- VEB (Vereniging van Effectenbezitters) and Deminor International CVBA served a writ of summons on 27 April 2009 against, among others, the State of the Netherlands, Fortis N.V., Fortis SA/NV, Fortis Insurance N.V., Fortis Insurance International N.V. and Fortis Bank. The plaintiffs who base their action before the court in Amsterdam upon tort (i.e. the State having acted wrongfully against the two listed companies Fortis N.V. and Fortis SA/NV as well as towards Fortis Bank, by forcing the sale of the Dutch insurance and banking business to the State on 3 October 2008), are requesting (i) a declaratory decision that the State has forced the sale and acted wrongfully (ii) a declaratory decision that the State also acted wrongfully towards Fortis shareholders at that time (iii) a declaratory decision that the State is liable and must pay the shareholders damages (iv) alternatively if the claims under (i) and (ii) are denied, an injunction obliging Fortis N.V. and Fortis SA/NV to commence a legal action against the State to seek compensation (on penalty of EUR 10 million for each day that such action is not undertaken within six months of the day on which the decision of the court is pronounced).

While the likelihood that such claims will effectively result in losses for Fortis Bank cannot be ruled out, such likelihood is considered very small based on the assessment of the situation at 30 June 2009.

- Other litigations are pending in relation to the restructuring of the Fortis group, to which Fortis Bank is at this moment not a party. The possibility cannot, however, be ruled out that the outcome of such litigations will also have an impact on Fortis Bank. For further information about these litigations, please refer to the disclosures made by the different parties to these litigations such as Fortis. The possibility cannot be ruled out that Fortis Bank, as a former member of the Fortis group, will become involved in further actions. It is not possible to predict or determine the ultimate outcome of such actions, if any, nor the potential impact on the Fortis Bank Consolidated Financial Report.

Like many other companies engaged in banking, investment, mutual funds and brokerage, Fortis Bank (and its consolidated subsidiaries) have received or may receive requests for information from supervisory, governmental or self-regulatory agencies. Fortis Bank responds to such requests and cooperates with the relevant regulators and other parties to address any issues they might have. Fortis Bank believes that any issues that have been identified do not represent a material or systemic problem to Fortis Bank or its businesses.

22.2. Other contingent assets and liabilities

Following the sale and split-off of FBN(H) from Fortis Bank as per the sales agreement of 3 October 2008, a separation agreement between Fortis Bank and FBN(H) was signed at 30 March 2009.

Negotiations are ongoing on remaining mutual exposures, some material funding and risk issues, including off-balance sheet instruments, the termination of an insurance policy to which the related claims, should they have to be paid, would be at the expense of Fortis Bank SA/NV, the discontinuation of services and some Dutch securitisation instruments. In order to adjust the initial split resulting from the legal separation, Fortis Bank and FBN(H) are still considering some potential asset swaps.

Other information related to the consolidated figures

23. Events after the reporting period

There have been no material events since the balance sheet date that would require adjustment to the Consolidated Interim Financial Statements as at 30 June 2009..

Report of the accredited statutory auditors

Introduction

We have reviewed the accompanying balance sheet of Fortis Bank SA/NV as of 30 June 2009 and the related statements of income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the financial position of the entity as at 30 June 2009, and of its financial performance and its cash flows for the six- month period then ended in accordance with International Accounting Standard 34 "Interim Financial Reporting".

Emphasis of Matter

Without qualifying our conclusion, we draw attention to the fact that as described in note 22 to the accompanying interim financial statements as of 30 June 2009, as a result of the 2008 events having impacted the Fortis group, a number of claimants have initiated legal actions against the former Fortis group, including Fortis Bank and/or certain (former) members of their boards of directors and management. The ultimate outcome of these matters and the potential consequences for Fortis Bank and its (former) directors cannot presently be determined.

Sint-Stevens-Woluwe, 31 August 2009

The accredited statutory auditor,
PricewaterhouseCoopers Reviseurs d'Entreprises sccrl
Represented by

Mr. Jeanquart and Mr. Steenwinckel

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