KBC Group

KBC provides update on structured credit exposure and 4Q 2008 financial highlights

KBC strengthens capital base

22 January 2009

Publication scheme for 22 January 2009
8.00 a.m. CET - Press release available on www.kbc.com
9.30 a.m. CET - Teleconference for financial analysts
11.00 a.m. CET – Teleconference for journalists

For registration and conference dial-ins of the analysts' conference call please call: +32 2 429 4051

FINAL

Agenda

- Information on a number of decisions following the adverse share price trend in recent days
- 2008 earnings prognosis based on provisional, unaudited figures
  - Therefore subject to change
  - Final figures will be published on 12 February 2009, detailed reports will be provided on the results and the structured credit portfolio

Summary

- Value of the (mezzanine) CDO notes fully written down
  - retaining only the super senior tranches
- Additional measures
  - to further concentrate activities on its home markets
  - to contain costs
  - to reduce market risk
- Moreover, capital base further strengthened
  - 2 bn € non-dilutive core capital issue
  - Standby core capital facility of 1.5 billion

André Bergen, KBC Goup CEO:

"*We took a conservative stance when marking down to zero all CDO investments which have not the highest, so-called super senior status. Meanwhile, we have taken decisive measures to reduce costs and to further reduce the risk profile of the activity portfolio."*

"We were happy to see that the performance in our core markets in Belgium and Eastern Europe held up relatively well. Exclusive of the exceptional financial crisis impact, the underlying profit for the year came to around 2.2 billion euros, a positive result achieved in a very difficult operating environment."

"The financial position of the group remains solid after we obtained the commitment this morning for an additional non-dilutive capital-strengthening transaction."

Highlights Q4 earnings

- Additional investment markdowns of -2.6 bn, net, recorded
  - conservative valuation approach
- Strong market position in Belgium
  - steady deposit inflow (also supporting excellent liquidity position)
  - underpinning business profitability despite weakening environment
- Volume trends in CEE resilient while credit loss below market expectations
- Negative impact on merchant banking results by trading loss in the derivative products business while non-domestic loan losses increased
- Impact of adverse investment climate on European private banking earnings
- FY results: around -2.5 bn € (underlying profit approx. 2.2 bn €)

Financial impact from additional value write-down on investments in 4Q 2008

- Mark-down of structured credit portfolio
  - 1.9 bn € (1.7 bn after tax) in Q4 including
    - impact of downgrades of CDO notes: -0.6 bn
    - impact of credit spread widening: -0.3 bn
    - impact of an increase of provision for counterparty risk of monoline insurers: -0.4 bn
    - full write-down of all remaining non-super senior exposure: -0.5 bn
    - reversal of existing deal reserves: +0.2 bn
    - extraordinary loss due to a sudden rise in asset correlations: -0.3 bn
  - Total impact for FY2008: 4.0 bn € (3.1 bn after tax)

Financial impact from additional value write-down on investments in 4Q 2008 (2)

- Impairment on equity investment portfolio, mainly in insurance business: 0.7 bn € (no tax impact)
  - following drop of European share prices (ca. 20% during the quarter)
  - includes impact of more conservative methodology for impairment tests
  - impairment for the entire 2008 financial year: 1.1 bn €

- Write-offs of exposures to Icelandic banks, negative earnings impact: 0.2 bn

CDO loss tests

Unaudited tests based on data for all CDO originated by KBC (8.0 bn nominal value, or 90% of total CDO-exposure), as of end 2008

- Total CDO impact on earnings since start of crisis: 4.1 bn (ca. 45% mark-down)
- Credit loss test:
  - 25% net loss on 2005+ subprime/Alt-A underlying
  - 9% net loss on corporate underlying additional to effective defaults
  - 80% net loss on monolines (default with 20% recovery)

  -> results in credit loss of -3.3 bn
- Estimated future sensitivity to market value changes:
  - Downgrading of CDO credit ratings: no impact
  - Increase of credit spreads by 25% (ABX, CDX, iTraxx): - 0.2 bn, net

Structured credit product portfolio, overview

Total structured credit portfolio (CDO + ABS)

In bn EUR	Jun 2008	Sep 2008	(unaudited) Dec 2008
Total nominal amount	16.2	16.1	15.7
Initial write-down of junior and equity CDO pieces	-0.8	-0.8	-0.8
Total nominal amount, net of provisions for equity and junior pieces	15.4	15.3	14.9
Cumulative financial impact of the crisis (mid 2007 to date)*	-0.9	-2.8	-5.7

* combined financial impact recognised against revenue (for CDO) and shareholders' equity (for ABS)

CDO portfolio

Net of provisions for equity & junior pieces

in bn EUR	30 Jun 2008	30 Sep 2008	31 Dec 2008	Nominal	Mark-down
Super senior	57%	60%	60%	4.8bn	-13%
SS in run-off	8%	8%	8%	0.6bn	-44%
CDO notes	35%	32%	32%	2.6bn	-100%
	100%	100%	100%	8.0bn	-45%

Other relevant earnings items

- Upward trend for loan losses
  - however, loss charges well below levels expected by the market
  - loan loss ratio of around 35 bps expected for FY 2008
    - excluding losses on credit exposure to troubled US and Icelandic banks
  - CEE loan loss ratio expected somewhere between 50 and 60 bps
  - No specific areas of special concern
- Trading loss of 0.2 bn € recognised for derivative products business
  - given sudden rise in volatility and correlation levels
  - measures taken to downsize business line and reduce future earnings volatility
- Restructuring charges of 0.1 bn €
  - across business units
- No recognition of fair value gain on KBC's own debt issued
  - in line with past practice
  - current rough estimate: around 0.8 billion €, before tax

Core capital strengthening

- Agreement reached
  - Core capital issue of 2.0 bn €
  - Flemish Regional Government to subscribe full amount
  - Non-dilutive; terms and conditions similar to those of the core capital issue subscribed by the Belgian State in Dec 2008 (however, no conversion option)
  - Still subject to approval of qualification of core capital by Belgian financial sector regulator
  - Closing expected 1Q 2009
- Impact
  - Tier-1 ratio, banking: approximately 10.5% (of which 8% core Tier-1)
- In addition, stand-by (non-dilutive) core capital facility:
  - 1.5 bn € available for next 5 years
  - Standby fee of 1% of undrawn amount

Core capital issue - summary term sheet

Instrument	Non-transferable, non-convertible securities qualifying as core capital (subject to regulator's approval)
Issuer	KBC Group
Subscriber	Flemish Regional Government
Maturity	Perpetual
Issue amount	2 billion euros (29.50 euros per security)
Issuer buyback option	KBC may offer a buyback at any time of all or some securities at 150% of the issue amount
Interest coupon	The higher of (i) 8.5% or (ii) 120% of dividend paid for 2009 and 125% for 2010 and onwards. No coupon in case no dividend is paid
Ranking	Pari passu with ordinary equity in the event of liquidition
Corporate governance	The subscriber has the right to recommend 2 Board members
Tax treatment	Coupon is not tax deductable

To be completed before the quarter-end

Wrap up

- Reported 2008 results impacted by financial crisis, not indicative for underlying business performance
- Adequate measures to moderate earnings risk
- Commitment to contain costs and to focus on home market activities
- Core franchise untouched; ready to reiterate growth when cycle turns
- Solid financial position ensured