Press release

February 13, 2009

KBC: clarification on CDO's sold to clients

In response to an article appearing today in the Belgian newspaper, *De Tijd*, KBC Bank confirms that over the past few years it has offered investments in (synthetic) CDOs to a number of institutional and corporate counterparties and private banking clients. The bank also has the investments/CDOs in its own portfolio.

These investments offered a number of benefits to the clients concerned, for example, relatively good (initial) ratings monitored every quarter, an attractive return, a quarterly coupon payment and limited interest-rate risk.

There are many types of CDOs on the market. Depending on the risks involved – where necessary, assessed per tranche – CDOs have different risk profiles. There are relatively defensive tranches and tranches that are more dynamic or highly dynamic.
KBC Bank informed the clients concerned in the best possible way (prospectuses, information sheets, regular discussions about their portfolios, etc.), and made sure that essentially investment-grade CDOs (i.e. with ratings of at least Baa3) were sold to these clients.

The CDOs sold by KBC Bank are structured in such a way that certain elements have been built in to keep the (credit) risks within certain limits. Although the risks are currently higher, it cannot simply be claimed that it was or is a careless move to invest in CDOs. One factor that must be considered in this regard is the unprecedented (global) financial crisis.

CDOs are valued based on both ratings and credit spreads. Moody's rating agency recently (significantly) downgraded the rating category for certain CDOs, in part based on a lower assessment of the underlying assets. Coupled with the fact that credit indices all over the world peaked during the past quarter, this has resulted in a lower valuation for the CDOs. The fair value measurement of such CDOs that must be used under International Financial Reporting Standards (IFRS) is not necessarily a reflection of the current underlying economic reality. Although many CDOs contain 'subprime mortgages', the underlying assets are made up primarily (around 80%) of credit risks on West European and US companies and financial institutions. However, since there is currently no market for CDOs, and therefore no market price, either, KBC must use another method - *based on a model that takes account of the information available under the circumstances (primarily credit spreads and ratings)* - to reasonably calculate an indicative valuation (i.e. Mark-to-Model).

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This indicative valuation, which clients are informed about, is not the price they might obtain today for the CDOs, nor is it the expected value redeemable at maturity, because account must also be taken of the actual impact of the current global recession. The valuation is purely indicative, an estimate of the current value of the CDOs, based on a valuation model.

The last few weeks KBC received a number of critical questions from some of its customers who have CDO investments. KBC will examine those questions case by case and will continue to inform its clients, in an appropriate way, about future developments.