



Press release

Regulated information *

.....
3 April 2009, 8.00 a.m. CEST

Update on embedded value of the life insurance business

Highlights

- The embedded value of KBC's life insurance business came to 2.8 billion euros (8.2 euros per share) at 31 December 2008
- The value of new business for 2008 totalled 100 million euros (0.29 euros per share), and the new business margin amounted to 32% (measured on an Annualised Premium Equivalent (APE) basis) and 3.5% (measured on a Present Value of New Business Premiums (PVNBP) basis)
- The scope of the model was extended to include most of the business in Central and Eastern Europe.
- Market Consistent methodology used.
- Explanatory memo available on www.kbc.com; analyst conference call at 4.00 p.m. CEST (dial-in: +44 207 162 0077)

Market Consistent Embedded Value, update as at 31 December 2008

The Market Consistent Embedded Value (MCEV) reflects the economic value of the life insurance portfolio by projecting anticipated future cashflows and using market consistent assumptions, among other factors.

At year-end 2008, the MCEV of the group's life insurance activities stood at 2 786 million euros (8.20 euros per share).

To calculate the MCEV, the Value of Business In Force (VBI) is added to the Adjusted Net Asset Value (ANAV). The ANAV of the life insurance business, amounted to 2 315 million euros, while the VBI came to 471 million euros.

Notwithstanding the drop in the Value of Business In Force, and following a capital increase of 1.3 billion euros, the total MCEV remained stable compared with the embedded value at the end of 2007. The MCEV was adversely impacted by prevailing financial market conditions, especially the markdowns on the CDO and equity portfolios, which form part of the ANAV. Without the capital increase, this would have lowered the MCEV by 45%.

The value added by new policies written in 2008 (Value of New Business) amounted to 100 million euros. The new business margin on an Annualised Premium Equivalent basis came to 32%, or 3.5% when compared with the present value of new business premiums.

If equity markets had been 10% lower at the start of the cashflow projection, the resulting MCEV would have been 3.7% lower. If the interest yield curve had shifted up by 100 basis points at the start of the cashflow projection, the resulting MCEV would have been 7.2% lower.

Methodology and scope

KBC applies a Market Consistent Embedded Value (MCEV) framework.

The scope of KBC's MCEV model is the life insurance business in Belgium, the European Private Banking Business Unit, the Czech Republic and Poland. This scope corresponds to 98% of the life insurance reserves and 96% of the life insurance premium inflow in 2008. The book value of the corresponding shareholders' equity amounts to 1.9 billion euros. In our disclosures in previous years, the Central and Eastern European business was not taken into account. For comparison purposes, the 2007 figures have been restated retroactively.

The model's scope covers the entire in-house value chain from origination to distribution of life insurance policies. Some 8% of the MCEV and around 7% of the Value of New Business was generated by the Asset Management division through managing investment units linked to insurance policies.

To calculate the MCEV, the Value of Business In Force (VBI) is added to the Adjusted Net Asset Value (ANAV, adjusted shareholders equity allocated to the life insurance business). The VBI equals the sum of the discounted values of all future profits of the life portfolio. It explicitly takes the cost of written guarantees and embedded options into account, as well as a capital charge for non-hedgeable risks (such as longevity, operational risks, etc.).

The Value of New Business (VNB) includes the value of new policies written in 2008 and is calculated in the same way as the VBI.

The published figures do not include:

- the value of the non-life insurance business;
- the value of the expected future life insurance business;
- the value of the life business in other CEE markets.

Watson Wyatt, the actuarial consultancy, carried out an independent review of the disclosures and concluded that the methodology and assumptions used comply with the European Embedded Value Principles and European guidance on embedded value.

Documentation and analyst conference call

An in-depth explanatory memo is available on www.kbc.com. A follow-up telephone conference for financial analysts is scheduled for today at 4.00 p.m. CEST. Dial-in: +32 2 290 1407; +44 207 162 0077; +1 334 323 6201

For more information, please contact:

- Luc Cool, Director of Investor Relations, KBC Group
Tel. +32 2 429 40 51
investor.relations@kbc.com
- Viviane Huybrecht, Director of Group Communication and of the KBC Press Office
- Spokesperson, KBC Group
Tel. +32 2 429 85 45
viviane.huybrecht@kbc.be or pressofficekbc@kbc.be