



Press release

Regulated information *

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31 March 2010, 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 3.5 billion euros (10.3 euros per share) at 31 December 2009**
- **The value of new business for 2009 totalled 53 million euros (0.16 euros per share), and the new business margin amounted to 19% (measured on an Annualised Premium Equivalent (APE) basis) and 2.3% (measured on a Present Value of New Business Premiums (PVNBP) basis)**
- **The scope of the model was reduced to exclude Fidea and Vitis, due to the divestment program.**
- **Market Consistent methodology used**
- **Explanatory memo available on www.kbc.com**

Market Consistent Embedded Value, update as at 31 December 2009

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 2009, the MCEV of the group's life insurance activities stood at 3 503 million euros (10.3 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 2 558 million euros, while the VBI came to 945 million euros.

The total MCEV increased 29% yoy as the total 2008 MCEV was adversely impacted by prevailing financial market conditions. The Value of Business In force (VBI) even doubled, largely the result of the increase of unrealised capital gains and the lower risk profile (decrease in implied volatilities). The ANAV (+14% yoy) benefited from a capital increase of 250 million euros.

The value added by new policies written in 2009 (Value of New Business) amounted to 53 million euros. The yoy decrease can mainly be explained by low interest rates. The new business margin on an Annualised Premium Equivalent basis came to 19%, or 2.3% when compared with the present value of new business premiums.

The economic sensitivities on MCEV have been sharply reduced. If equity markets had been 10% lower at the start of the cashflow projection, the resulting MCEV would not have been materially lower. Also, if the interest yield curve had shifted up by 100 basis points at the start of the cashflow projection, the resulting MCEV would not have been materially impacted.

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 Czech Republic and Poland. This scope corresponds to 98% of the life insurance reserves and 95% of the life insurance premium inflow in 2009. The book value of the corresponding shareholders' equity amounts to 2.8 billion euros. In our disclosures in previous years, the business of Fidea and Vitis was taken into account. For comparison purposes, the 2008 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 6% of the MCEV and around 10% 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 2009 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 life business in Slovakia, Bulgaria, Hungary and Slovenia;
- the value of the expected future life insurance business.

Valuing both the non-life insurance business and the value of the life business in Slovakia, Bulgaria, Hungary and Slovenia (out of scope of the MCEV calculation) at 1.0 times book value, implies another EUR 1.7 per share (besides the EUR 10.3 MCEV per share for the life business).

Towers Watson, 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

An in-depth explanatory memo is available on www.kbc.com.

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