



Reaction

8 November 2011

KBC Bank has given investors additional comfort on bond loans: KBC Ifima 5-5-5 and KBC Group 5-5-5

KBC Bank has given investors who subscribed to two specific bond loans the comfort that the nominal value will remain protected if a credit event occurs in one of the underlying countries.

Changed risk profile

In the spring of 2008, KBC launched two bond loans on to the market: KBC Ifima 5-5-5 (ISIN-code XS0351110340) and KBC Group 5-5-5 (ISIN-code BE5978427268). These structured bonds have a term to maturity of 5 years, a gross coupon of 5% and are linked until their maturity to the public debt of 5 countries (Belgium, France, Spain, Italy and Greece).

At the time of issue, all these countries enjoyed high creditworthiness. Country risks, certainly among established EU countries, were at the time universally assessed to be very low, and both bonds were recognised as defensive investments. The unexpected and far-reaching changes in market conditions early in 2010 with the Greek crisis shifted the risk profile of these products in May of that year from defensive to dynamic. All holders of these bonds were informed of this at the time in writing.

According to the products' terms and conditions these issues are to be redeemed in full at maturity, unless a credit event occurs in one of the underlying countries. In that case, the bonds would be redeemed early at a price that is lower than the initially anticipated redemption value. Coupon payment would also stop.

At this moment in time, all the underlying countries are still meeting their financial obligations, and all bond coupons due to date have been paid out as normal. Nevertheless, the creditworthiness of some of the underlying countries has been under pressure for some time, which has meant that the risk of early redemption is raising its head again.

KBC removes investors' uncertainty

KBC wants to deal with the resulting uncertainty for the largely defensively-oriented bondholders who have subscribed to these products. If a credit event occurs in one of the aforementioned countries, KBC will propose a solution for these two specific bonds whereby the early redemption price *together with coupons received* is the same as the nominal value (before charges and taxes). In this way, the initial investment remains intact. If during the term to maturity no credit event occurs, the bonds will be paid out in full at maturity in 2013.

Customers who meanwhile have sold some or all of these bonds, receive – either upon the occurrence of the credit event or at maturity – an equivalent settlement, whereby account will be taken of an estimated reinvestment return. In this way, their loss by selling the bonds early will be compensated.

This solution applies to all bond holders. For practical reasons, these bonds must be placed on a KBC/CBC investment account.

This solution shall not apply to other KBC investment products. Furthermore, this is the only investment product in the KBC range with such a 'first-to-default' structure. The solution does not apply either to those bondholders who sold these bonds at market value after the introduction of this solution.

All investors affected have been informed personally and proactively months ago. They themselves need take no action. If a credit event occurs, the additional comfort mechanism is activated automatically, and KBC will contact them directly regarding the extra administrative formalities in the form of a contractual arrangement.

KBC Group NV
Havenlaan 2 – 1080 Brussel
Viviane Huybrecht:
General Manager Group
Communication /Spokesperson
Tel. 02 429 85 45

Press Office
Tel. 02 429 65 01
Fax 02 429 81 60
E-mail: pressofficekbc@kbc.be

KBC press releases are available at www.kbc.com or can be obtained by sending an e-mail to pressofficekbc@kbc.be

Follow us on  www.twitter.com/kbc_group