Press release

Regulated information *

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Update on embedded value of the life insurance business

Highlights

- **The embedded value of KBC's life insurance business came to 3.7 billion euros (11.0 euros per share) on 31 December 2010**
- **The value of new business for 2010 totalled 75 million euros (0.22 euros per share), and the new business margin amounted to 30.1% (measured on an Annualised Premium Equivalent (APE) basis) and 3.1% (measured on a Present Value of New Business Premiums (PVNBP) basis)**
- **The scope of the model didn't change in 2010 (versus 2009)**
- **Market Consistent valuation methodology used**
- **Explanatory presentation available on www.kbc.com**

Market Consistent Embedded Value, update as at 31 December 2010

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 2010, the MCEV of the group's life insurance activities stood at 3 724 million euros (11.0 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 3 043 million euros, while the VBI came to 681 million euros.

The total MCEV increased 11% year-on-year. The ANAV went up by as much as 19% year-on-year, thanks mainly to the profit generated in 2010 and the dividends received from entities not in the scope for MCEV calculation. The Value of Business In Force (VBI) decreased 15% year-on-year, the result largely of the decrease in swap reference rates which impact the 'guaranteed-interest products' portfolio. The liquidity premium above the swap rates applied for KBC Insurance decreased from 20 basis points in 2009 to 14 basis points. No liquidity premium was applied for the CEER Business Unit.

The value added by new policies written in 2010 (Value of New Business) amounted to 75 million euros. The 42% year-on-year increase can be explained mainly by the more profitable business such as unit-linked and term insurance. The new business margin on an Annualised Premium Equivalent basis came to 30.1%, or 3.1% when compared with the present value of new business premiums.

The economic sensitivities on MCEV remained limited. 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 97% of the life insurance premium inflow in 2010. The book value of the corresponding shareholders' equity amounts to 3.2 billion euros. As was the case the previous year, the business of Fidea and Vitis was not taken into account.

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 22% 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 the frictional costs and a capital charge for non-hedgeable risks (such as longevity, operational risks, etc.).

The Value of New Business (VNB) includes the value at point of sale of new policies written in 2010 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 insurance business in Slovakia, Bulgaria, Hungary and Slovenia;
- the value of the expected future life insurance business.

Valuing both the non-life and life insurance businesses in Slovakia, Bulgaria, Hungary and Slovenia (out of scope for the MCEV calculation) at 1.0 times book value, implies another 2.1 euros per share (besides the 11.0 euros 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 presentation is available in this presentation.

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