



Clarification

Brussels, 23 February 2015

KBC provides transparency regarding tax rulings

Over the years and on several occasions, KBC Bank NV and KBC Group NV have requested the tax authorities in a number of countries to provide clarity on the tax treatment of some product-related or accountancy-based issues. The guidance or approval received from the tax authorities (in rulings) allows KBC to correctly apply the tax rules and provide its financial reporting properly and transparently. Many of these rulings have no or limited impact on KBC's profit or loss. In fact, a ruling also ensures a level playing field for all market participants.

With the aim of being as transparent as possible, KBC has provided below an overview of the tax rulings it has so far concluded with various tax authorities (in different countries).

As such and in line with its own transparency policy, KBC doesn't object to ruling commissions making their decisions public.

Overview per country

1. KBC tax rulings in Belgium: to provide clarification on the interpretation of tax rules

In 2012, **KBC Asset Management** obtained a number of tax rulings providing clarity and certainty on the tax qualification of investment products it issued.

KBC Bank and **KBC Group** have also received several tax rulings.

During the financial crisis, KBC Bank was obliged to grant a debt waiver to KBC Investments Ltd. In a decision taken in April 2010, the Ruling Commission agreed to this debt waiver being deducted from taxes.

KBC Bank and KBC Group also received several tax rulings on the tax treatment of hybrid financial instruments they issued (qualifying as equity for regulatory purposes):

- In a ruling in April 2009, KBC Group received confirmation that the payments on the yield enhanced securities (YES) subscribed by the Flemish Regional Government should be considered for tax purposes as dividend payment.
- In a ruling in January 2013, KBC Bank received confirmation that the interest payments on its contingent capital securities (CoCo) were tax deductible.
- In a ruling in March 2014, the Ruling Commission confirmed that the payments on the Additional Tier-1 notes issued by KBC Group and the payments on the mirroring Additional Tier-1 loan between KBC Group and KBC Bank, should be treated as tax deductible interest. In response to media coverage on this ruling, KBC published a statement on its website (www.kbc.com) on 27 March 2014 clarifying the nature of this ruling request. In its application, KBC asked for similar tax treatment to that decided on by the local tax authorities in many other European countries following publication of the stricter requirements for Basel III instruments. This treatment has already been formally approved by the local authorities in the UK, France and Spain for the financial institutions established in those countries. Based on those local rules, other European banks have already issued Additional Tier-1 instruments. All KBC has done in Belgium is request similar treatment to avoid a competitive disadvantage relative to foreign players operating in Belgium.

2. KBC tax rulings in Luxembourg

In 2006, KBC Asset Management SA obtained a ruling allowing for tax goodwill related to the financial and fund management expertise that was available in the entity. This ruling expired in 2013.

In November 2014, and as a result of the merger between KBC Asset Management SA and KBC Life Fund Management SA that KBC implemented to make both entities compliant in an efficient manner with the European UCITS directive, KBC Asset Management SA had to file a new ruling request with the Luxembourg tax authorities. This merger generated an economic value which, according to Luxembourg rules, may be registered on the balance sheet as an intangible fixed asset which the company may write off. This additional economic value is calculated using market-based and publicly available external benchmarks relating to other comparable companies. Following the merger, the intangible fixed asset of KBC Asset Management SA was approved in a ruling issued by the Luxembourg tax authorities. Its value is reviewed as standard every three years and also any time there is a major change in the activities or group structure of KBC Asset Management SA.

KBC IFIMA and KBC Financial Products International SA, both issuance vehicles of KBC, have filed advanced pricing agreements with the Luxembourg tax authorities in order to confirm a market compliant rate that has to be applied to transactions with related KBC entities (especially KBC Bank NV). These rulings merely confirm the rate to be applied from a tax point of view. Before its relocation to Luxembourg, KBC IFIMA SA obtained a similar advanced pricing agreement with the Dutch tax authorities in 2011.

3. KBC tax rulings in the UK

In November 2010, KBC Investments Ltd entered into an agreement with the UK tax authorities on the debt waiver granted by KBC Bank NV in April 2010 (see item 1 above 'KBC tax rulings in Belgium')

4. KBC tax rulings in Hungary

In Hungary, a number of rulings have been concluded in order to agree on the tax treatment of corporate restructuring operations, especially mergers.

Besides these rulings, K&H also received two rulings that relate to VAT.

5. Other countries

There are no rulings with the Czech, Slovak, US or Irish tax authorities. Bulgarian tax legislation does not contain a ruling procedure.