KBC Group

KBC strengthens already solid financial position

27 October 2008

Teleconference dial-in for financial analysts: +44 1452 586 513

V1.1

Today's objectives

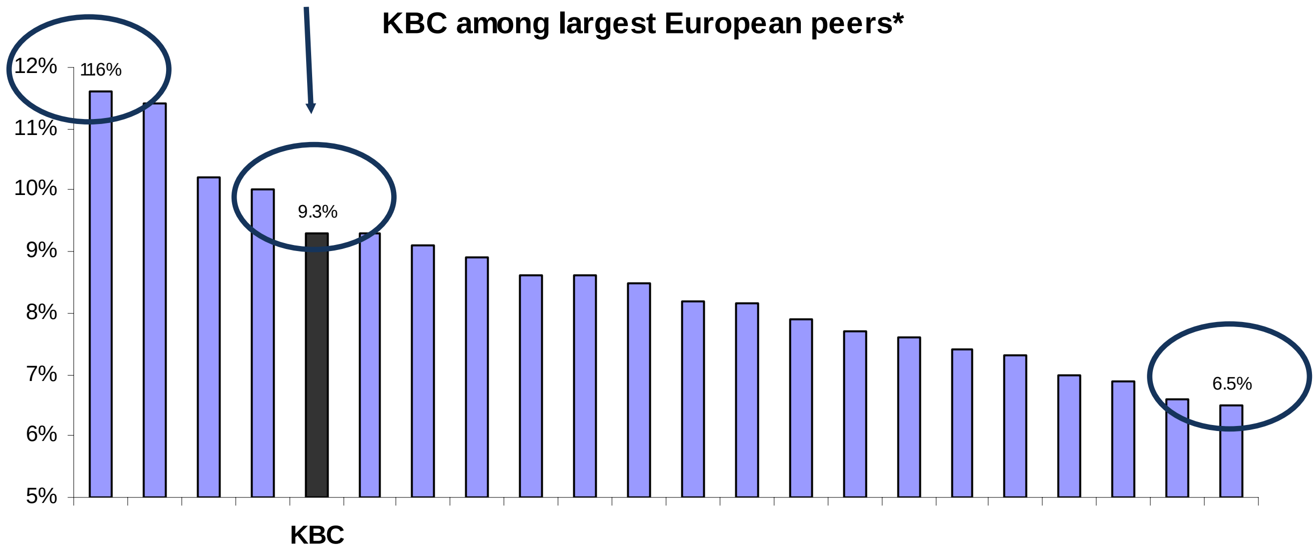
- Reconfirming comfort as regards our financial stability
- Informing about measure taken to further increase excess capital to follow up on market call for higher capital requirements across the banking sector
- Highlighting that newly issued securities have "core capital" qualification by Belgian financial sector regulator
- Describing transaction details

(Given exceptonial circumstances, 3Q pre-earnings black-out period – i.e. period prior to earnings publication during which KBC has no contacts with media and investors - suspended until 1 November)

Comfortable solvency situation

- KBC has always maintained solid capital ratios, well above sector average
- The solvency position has not changed in recent weeks or past few days

Tier 1 ratio as at 30-06-2008
KBC among largest European peers*



* Peer selection based on market cap (excluding banks with balance sheet total below 200 billion euros); tier-1 ratio as published and based on Basel II

New market standards for solvency

- Following uncertain global environment and massive capital injections worldwide, capital markets call for higher banking capital requirements
- Market is demanding banks to move to core Tier-1 capital level of 8%+ (the value of hybrids is recognized but is viewed as lesser quality of capital)
- As more banks accede to these capital levels, the pressure on those that remain at pre-crisis levels intensifies, regardless of their individual strengths and business strategies

New market standards for solvency

	1H 08		1H 08 Pro forma after Capital Increase	
	Core Tier 1 (%)	Tier 1 (%)	Core Tier 1 (%)	Tier 1 (%)
Benelux				
Dexia	10.2	11.4	15.1	16.3
KBC	7.0	9.3	7.0	9.3
ING	6.2	8.2	8.0	10.0
Spain				
Santander	6.3	7.9	6.3	7.9
BBVA	6.3	7.7	6.3	7.7
Italy				
UniCredit	5.7	6.5	6.2	7.0
Intesa Sanpaolo	5.7	6.6	5.7	6.6
France				
BNP Paribas	6.2	7.6	9.3	10.8
SocGen	6.6	8.2	6.6	8.2
CASA	6.5	8.9	6.5	8.9
UK				
HSBC	7.7	8.8	7.7	8.8
Barclays	6.3	9.1	7.3	10.9
Lloyds	6.2	8.6	9.1	12.1
RBS	5.7	8.6	8.7	12.7
Germany				
Deutsche Bank	5.9	9.3	6.5	11.2
Switzerland				
UBS	9.3	11.6	9.3	13.5
Credit Suisse	8.5	10.2	9.5	13.6
Average	**6.8**	**8.7**	**7.9**	**10.3**
Change since 1H 08			1.1	1.6

* Financial institutions marked with red arrow have had a capital increase; many of those were sponsored by national governments

Transaction highlights

- KBC to issue capital securities to Belgian State following similar initiatives initiated by authorities worldwide
- Total: 3.5 billion euros to be booked as shareholders' equity (2.25 bn used in banking, 1.25 bn in insurance)
- Securities qualified by financial sector regulator as core capital; core capital ratios boosted:
    - Tier-1 ratio, banking: 10.7% (8.2% core Tier-1)
    - Solvency margin, insurance: 280% (230% after 25% drop in share prices since 30-Sep)
    - Gearing capacity at holding company level untouched (gearing ratio: 106%)
- Net coupon charge: ca 200m/year (but depending on dividend), to be booked against shareholders' equity (not against revenue!)
- No 2008 dividend (and therefore no coupon payable on newly issued securities for first 6 months up to next AGM)

Summary term sheet

Instrument	Fully paid-up new class of non-transferable securities qualifying as core capital
Issuer	KBC Group
Subscriber	Belgian State
Maturity	Perpetual
Issue price	29.50 euros per security (average of 3 last closing prices)
Issuer buyback option	KBC may offer a buyback at any time of all or some securities at 44.25 euros per security (150% of the issue price), subject to regulator's approval
Interest coupon	The higher of (i) 2.51 euros per security (8.5%) or (ii) 110% of dividend paid for 2009 and 115% for 2010 and onwards. No coupon in case no dividend is paid
Ranking	Pari passu with ordinary equity
Substitution option	From 3 years after the issuance onwards, KBC has the right to substitue the securities with ordinary shares on a one-on-one basis. If KBC chooses to do so, the State can opt for repayment of the securities in cash at 100% of the issue price (subject to regulator's approval)
Tax treatment	Coupon is not tax deductable

Core capital nature

- Government ownership
- Deep subordination:
  - Pari passu with common equity, no preferential treatment in a winding-up
- On-going payments:
  - Interest payment only if and when dividend has been paid - so effectively behaving as though it was common equity
- Permanence:
  - Maturity is perpetual, in line with common equity
  - Call feature at the option of the issuer, not the investor (like common equity)
  - Call feature to be approved by the financial sector regulator
  - No events of default

Corporate governance rights

- Non voting securities
- Belgian state to nominate 2 Board members with approval right for limited number of decisions, such as:
  - Share issuance or buyback (except related to current transaction)
  - Acquisitions with value > ¼ of capital & reserves
  - Remuneration policy for executive committee members
- KBC executive committee members already decided to forego all 2008 bonuses

Key messages

- KBC’s financial position was robust and has now even been reinforced
- Today’s transaction provides additional “core capital”
- No dividend will be paid for 2008 (reflecting existing shareholders’ contribution to building the capital buffer)
- No impact on the rights of (other) debt holders
- No impact, whatsoever, on business strategy and day-to-day operations for customers and staff

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