Press release

14 May 2009

Background information to KBC Group 1Q09 results:

encouraging start to the year
guarantee scheme for structured credit

The first quarter of the year was encouraging for KBC. Income from ordinary activities (465 million euros) improved significantly in comparison with the last quarter of 2008, an absolute nadir of the banking crisis. During the first three months of the year, commercial margins made a clear recovery, the cost trend was favourable, and loan losses remained within expectations.

However, KBC again had to record impairment losses because MBIA, a US credit reinsurer ran into difficulty. MBIA used to have the highest AAA rating and insures 14 billion euros' worth of KBC risks. Having run into difficulty, the reinsurer moved valuable assets to a separate entity in February whereby its solvency was eroded. Together with a number of other banks, KBC initiated legal proceedings against MBIA on 13 May in order to defend its interests. Because of the difficulties at MBIA, KBC runs the risk that it will have to bear the cost of any insured losses itself, and has therefore set aside a provision of 2.5 billion euros for this purpose.

Furthermore, an additional amount had to written down on the so-called CDO (Collateralised Debt Obligation) investments, in most cases corporate credit repackaged as bonds. KBC had already written the value of these investments down to zero, except the tranches with the highest quality ratings, which are known as the super senior tranches. Due to the deterioration of the global economic climate, 1.3 billion euros had to be set aside for the super senior tranches for accounting purposes even though no actual losses had been made on account of repayment problems at the companies who had taken out the loans in the first place.

To avoid additional losses on the CDO portfolio and on MBIA in the future, a guarantee scheme has been agreed with the government. This guarantee covers both the risk related to MBIA and the risk relating to the super senior CDOs and amounts to 20 billion euros in total. The risks will be covered in three tranches. If losses occur, the first tranche of 3.2 billion euros will be born by KBC. To this end, KBC has already set aside the necessary provisioning to ensure that these losses cannot affect future results. If the losses exceed this amount, KBC has the option for the next tranche (amounting to 2 billion euros) of either bearing the loss itself or asking the State to assist by means of a capital increase. Lastly, any remaining risk will be covered by the State. If this last guarantee should be called in, the government will pay in cash. Both for the second and third tranches, KBC will have to cover an 'excess' of 10%. Besides a number of accounting adjustments, future additional losses will be limited.

KBC will book a premium for this guarantee that is in line with market rates, i.e. 1.2 billion euros upfront and 30 million euros a quarter for six years. The 1.2 billion euros plus the first 30-million-euro payment will be booked in the second quarter.

Lastly, KBC will use the 1.5 billion euros allocated by the Flemish Regional Government in January to further increase its capital. Taking all measures into account, KBC's capital ratio (known as the tier-1 ratio) will come to a solid 11%, and the company will be well-armed to weather the economic crisis.

Note for the Editor*: while this press release is highly simplified and incomplete in a number of areas, KBC believes it paints a true picture. For more detailed information, please refer to the regulated press release on the results, which is available at www.kbc.com.*