Press release

Regulated information *

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Schedule for publication on 22 January 2009:
08.00 a.m. CET - Press releases are available at www.kbc.com
09.30 a.m. CET - Teleconference for financial analysts (dial-in number to be obtained at +32 2 429 40 51)
11.30 a.m. CET - Teleconference for journalists (dial-in number available from www.kbc.com)

22 January 2009 – 8 a.m. CET

KBC provides update on structured credit exposure and 4Q 2008 financial highlights

KBC strengthens capital base

Following the adverse share price trend in recent days, KBC wants to inform the market about a number of decisions it has taken. KBC has written down in full the value of the (mezzanine) CDO notes in which it has invested (retaining only the super senior tranches), while also measures were taken to further concentrate its activities on its home markets, contain costs and reduce market risk. Moreover, the group is further strengthening its capital base by a 2 billion euro non-dilutive core capital issue to be subscribed by the Flemish Regional Government (subject to approval of the qualification as core capital by the sector regulator). An additional, standby core capital facility of 1.5 billion euros is also being provided.

According to André Bergen, Group CEO: "*We took a conservative stance when marking down to zero all CDO investments which do not have the highest, so-called super senior status. We have also taken decisive measures to reduce costs and to further reduce the risk profile of our activity portfolio. We are pleased to see that the performance in our core markets in Belgium and Central and Eastern Europe held up relatively well. Excluding the impact of the exceptional financial crisis, underlying profit for the year came to around 2.2 billion euros, a positive result achieved in a very difficult operating environment. The financial position of the group remains solid after we obtained the commitment this morning to an additional non-dilutive capital-strengthening transaction.*"

4Q earnings highlights

- Net reported loss for the fourth quarter, bringing the full-year results to around -2.5 billion euros
- The above earnings prognosis based on provisional, unaudited figures; subject to change
- -2.6 billion, net, investment markdowns recorded (conservative valuation approach), as detailed in the following paragraph
- Strong market position in Belgium underpinning business profitability despite weakening environment. Steady deposit inflow supporting excellent liquidity position (while interbank market funding on longer tenures also became accessible)
- Volume trends in CEE resilient while also credit loss remained below market expectations
- Merchant banking results negatively impacted by trading loss in the derivative products business while non-domestic loan losses increased
- Earnings of European Private Banking impacted by adverse investment climate

Financial impact of additional value write-downs on investments in 4Q 2008

- The structured credit portfolio was marked down to the tune of 1.9 billion euros (1.7 billion euros after tax), bringing the total markdown for 2008 to 4.0 billion euros (3.1 billion euros after tax). The amount for the fourth quarter includes the impact of downgrades of CDO notes (-0.6 billion euros), the impact of credit spread widening (-0.3 billion euros) and an increase in the provision for counterparty risk of monoline insurers (-0.4 billion euros). Another -0.5 billion euros was added for the full write-down of all remaining non-super senior exposure, partly offset by the reversal of existing deal reserves (+0.2 billion euros). A sudden rise in asset correlations caused an extraordinary loss of -0.3 billion euros.
- Impairment in the amount of 0.7 billion euros was recorded on the equity investment portfolio, mainly held in the insurance business, as European share prices sank by around 20% during the quarter. This amount includes the impact of a more conservative methodology for impairment tests, as decided on in consultation with our external auditors. Impairment for the entire 2008 financial year came to 1.1 billion euros.
- Write-offs on exposures to Icelandic banks had a net negative impact of 0.2 billion euros on earnings.

Following the full write-down of the (mezzanine) CDO notes, credit rating downgrades of remaining CDO tranches will have no further impact on their valuation. Moreover, a hypothetical 25% further widening of the credit spread will have an estimated net impact of -0.2 billion euros on the value of the remaining super senior exposure.

Other relevant earnings items

- In Q4 2008, the trend for loan losses was upwards, although loss charges remain well below levels expected by the market. Excluding losses on credit exposure to troubled US and Icelandic banks, a loan loss ratio of around 35 basis points is expected for the entire financial year. In CEE, the 2008 loan loss ratio is expected to end somewhere between 50 and 60 basis points.
- Given the sudden rise in volatility and correlation levels, a trading loss in the amount of 0.2 billion euros was recognised for the derivative products business. Measures have been taken to downsize this business line and to reduce future earnings volatility, consequently.
- Restructuring charges in the amount of 0.1 billion euros were recorded for all business units combined.
- As in the past, KBC did not recognise the fair value gain on its own debt issued (currently roughly estimated at around 0.8 billion euros before tax).

Core capital strengthening

This morning, KBC has reached agreement with the Flemish Regional Government for a non-dilutive, core capital injection of 2.0 billion euros (subject to approval of the qualification as core capital by the Belgian financial sector regulator CBFA). The capital support will enable KBC to maintain its tier-1 ratio for the banking activities at approximately 10.5% (of which 8% core tier-1). The terms and conditions will be similar to those of the core capital issue subscribed by the Belgian State in December 2008. In addition, an agreement was reached for a stand-by (non-dilutive) core capital facility to the tune of 1.5 billion euros. If needed, KBC can draw on this facility to maintain capital at adequate levels in the future.

Final figures will be published on 12 February 2009

As the above prognosis is based on provisional, unaudited figures from an early stage in the process of consolidating the results, the results given in this press release are subject to change. KBC will publish its definitive quarterly results on 12 February 2009, when detailed reports will be provided containing information on the results and the structured credit portfolio.

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A PowerPoint presentation will be made available at www.kbc.com .

* This news item contains information that is subject to the transparency regulations for listed companies.