



Press Release - Before trading hours - Regulated information*

6 January 2011

KBC trading update on 4Q10 results.

KBC's underlying results in the fourth quarter of 2010 will be influenced by increased provisioning for the Irish loan book and an isolated case of irregularities at KBC Lease UK.

KBC will make additional one-off net provisions of between 315 and 330 million EUR (depending on the exact tax impact) for these two events and wishes to inform the market and all stakeholders about this impact in advance of the publication of fourth-quarter earnings on 10 February 2011.

The above-mentioned events and moderate results from market activities will impact the performance of the Merchant Banking Business Unit. However, the underlying results from other businesses in the fourth quarter of 2010 are fully in line with expectations. The effect of the above-mentioned events on reported profit will not be substantial.

KBC Bank Ireland increases provisions for its loan portfolio.

Since the release of its third-quarter results on 10 November 2010, KBC has seen a further deterioration in market conditions in Ireland.

Following the announcement of the 85 billion EUR European Union and International Monetary Fund financial aid package for Ireland on 28 November 2010 and the consequent impact on the Irish economy, KBC Bank Ireland has reassessed its required provisioning levels for 2010.

Although the financial aid package should reduce the risk of default by the Irish Government, KBC also expects that the accelerated restructuring of the Irish banks (Bank Recovery Plan) will have a negative effect on asset valuations in the industry. Consequently, KBC has increased its provisions in respect of its commercial lending portfolio, mainly in its relatively limited real estate development and investment financing activities.

Moreover, any economic recovery will be slower than anticipated in November 2010 and is not expected to have a positive effect on employment levels in the short term. The continuously high level of unemployment may cause higher arrears and default ratios for mortgage loans to retail customers. As a result, KBC has also increased its provisioning of its residential mortgage portfolio.

On account of these factors, KBC has decided to make additional impairments. Fourth-quarter loan impairment provisions for Ireland will now amount to approximately 263 million EUR net (300 million EUR gross).

KBC Bank Ireland remains a sufficiently capitalised bank.

KBC provisions for case of irregularities in KBC Lease UK

During the fourth quarter, internal controls at KBC Lease UK identified irregularities in some of the contracts between that KBC entity and third parties. A full and thorough review is being conducted by both the relevant authorities and KBC's internal audit and compliance departments. At this stage it remains premature to form final conclusions on the basis of the ongoing investigation. KBC has appointed an external legal counsel to assist in the investigation and is pursuing all available legal remedies against the third parties involved in order to protect its interests.

Today, the maximum net (potential) amount of the irregularities has been estimated at approximately 150 million EUR, depending on the exact tax impact. A provision has been made. KBC has taken certain legal preventive measures deemed necessary to protect its interests and to maximise its recovery and has also filed an insurance claim aimed at recovering the amounts at risk.

KBC will announce its detailed full-year and fourth-quarter results for 2010 on 10 February, 2011.

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Notes for the editor

KBC Lease UK Ltd, a subsidiary of the KBC Lease Group, provides leasing services in the UK. KBC Lease UK has been earmarked for divestment as part of the updated strategy of the KBC group.

KBC Lease UK provides long-term finance. It has provided finance by purchasing known streams of future payments (receivables) due under lease (e.g. lease rentals), or similar agreements, from a vendor or lessor of such assets. Its principal business is the financing of investments in assets such as Information and Communications Technology mostly by large organisations in both the public and private sectors. It carries out this activity primarily in partnership with vendors of such movable assets and technology and independent lessors operating in this sector.

This method of financing is widely used by other leasing companies in the UK operating in the same sector. In the ordinary course of business only little credit risk is taken on a vendor, but on the end customer.

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