



# Statement

10 February 2011

## KBC statement on irregularities at KBC Lease UK

KBC Lease UK used to be active mainly in vendor leasing, an international and common form of financing, where a vendor works together with a lease company to add financial solutions to its services. The end customer concludes a lease contract with the vendor and the lease company then takes over the claims in that contract.

The lease company, therefore, has a working relationship primarily with the vendor.

At the end of 2009, KBC took the strategic decision to continue providing a full range of leasing services solely to customers in Belgium and its five home markets in Central and Eastern Europe. Internal controls conducted during preparations to sell KBC Lease UK last year revealed irregularities.

A respected vendor, with which KBC Lease UK had a good working relationship, had deceived KBC Lease UK into refinancing fictitious contracts. So far, the investigation has revealed that the vendor had clandestinely paid a – now former – employee of KBC Lease UK which facilitated the acceptance of such files and prevented the irregularities being detected in time through the normal control mechanisms.

On paper, the credit proposals appeared normal. Some proposals were approved by head office, others rejected. However, the investigation shows that while some contracts were real, many others turned out to be fake. When KBC Lease UK called a number of contracting parties/end customers, the customers in question were real enough, but were unaware of some contracts. This confirmed that the contracts had been fake.

Moreover, the vendor had made all payments on time and down to the last penny as if the money had come from the counterparties. With vendor leasing, the lease company always finances the entire amount immediately, whereas the lease payments are spread over time, with the first one often only being made after a certain period of time has elapsed.

As soon as the irregularities were discovered, KBC informed the British relevant authorities, which took the requisite measures, also in relation to the vendor concerned. In addition, KBC has initiated all the legal steps deemed necessary to protect its interests and to maximise its recovery, and has filed an insurance claim.

*This statement was given on the occasion of KBC Group's 4q10 and full year 2010 results presentation.*

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