Reaction

30 April 2013 (update of message of 6 April)

KBC responds to media reports regarding its presence in the Cayman Islands, the British Virgin Islands, Ireland and Luxembourg through subsidiaries and representative offices abroad

In response to recent reports, KBC would like to give a complete overview of its presence in the Cayman Islands, the British Virgin Islands, the Isle of Man, Ireland and Luxembourg.

3 Companies in the Cayman Islands

In the past, KBC set up companies in the Cayman Islands and the British Virgin Islands purely for reasons relating to company and financial law. These companies specialise in financial transactions with US investment funds and in credit and equity derivatives. The legislation in these countries provided greater contractual freedom and flexibility for making tailored contracts for such specific financial transactions. KBC currently still has three companies in these islands.

The companies in question are trading companies that deal only with professional financial counterparties and are not authorised to hold client assets in any form whatsoever (none of these offshore companies has a banking licence and therefore cannot take client deposits). Every one of these companies pays tax in the country in which the head office of the KBC company responsible for managing the product line is established, i.e. Belgium, the US or the UK.

Each of the activities involved relates to companies from the KBC Financial Products business lines that are currently being run down, i.e. no new contracts are being concluded and the only activity remaining is the management or reduction of existing contracts. The companies will be liquidated as soon as the contractual situation so allows.

10 CDO issuers in Jersey

KBC still owns 10 CDO issuers. These companies were established solely for the purpose of issuing CDO notes to which KBC clients and certain KBC companies subscribed. They do not generate any accounting or taxable result as all income is paid in full to the investors in these notes (as set out in the relevant contracts). Consequently, no result remains untaxed in these companies in Jersey. The investors are taxed in the countries in which they are resident for tax purposes.

The companies were established in Jersey for reasons relating solely to company law, since legislation in Jersey allows considerable contractual freedom in terms of defining the rights of a company's creditors. This was essential to facilitate the specific redemption terms of the CDO notes from a legal point of view.

KBC does not have any shares in these CDO issuers. They are included in KBC's scope of consolidation because, by repurchasing the notes and through its historical positions in them, KBC has a large claim against the companies. As a result, KBC has some element of control over them, which means that, pursuant to IFRS rules, they have to be included in KBC's scope of consolidation.

These companies are being managed on a passive basis only, with no activities other than management of the risks and, where possible, the accelerated reduction of those risks. When the CDO notes reach their final maturity dates (the last of which in 2017), all the companies will be liquidated.

1 Company in the British Virgin Islands

Tee Square Ltd, a wholly owned subsidiary of ČSOB Bank, is established on the British Virgin Islands. This company used to be used to manage local funds that ended up in the KBC group when ČSOB acquired IPB. Tee Square Ltd has always voluntarily declared its taxes in the Czech Republic, which means its results were actually taxed there. This company no longer carries out any activities and is in liquidation. Completion of the liquidation process depends on a number of outstanding legal problems, but is expected before 31 December 2013.

1 Company in the Isle of Man

Rolata Ltd, a wholly owned subsidiary of KBC Bank Ireland, is established in the Isle of Man. It was set up for making investments in UK companies. All of these investments have subsequently been run down, which means that the company has not been active since 2009 and, therefore, no longer generates any results either. Consequently, no profit has been generated that has not been taxed. The company's location for tax purposes will be moved to Ireland in 2013 as part of its liquidation process, which, in accordance with local legislation, will take a further two years to complete.

Representative offices abroad

Certain KBC group companies have representative offices abroad as part of their activities (e.g., the KBC Bank New York branch in the Cayman Islands and ADB Asia Pacific Ltd in Dubai). The results generated by these offices are included for tax and accounting purposes in the income statements for the relevant head office establishments and, therefore, taxed in full in the countries where those establishments are located (i.e. the US and Singapore, respectively).

Presence in Ireland and Luxembourg

KBC has a banking subsidiary in Ireland (KBC Bank Ireland), asset management companies in Ireland (KBC Fund Management Ltd) and in Luxembourg (KBC Asset Management SA) and a reinsurance company in Luxembourg (KBC Group Re), all of which are taxed in full according to the rules prevailing in those countries.

These are companies that employ staff locally (for instance, KBC Bank Ireland Ltd has offices in Dublin, Cork, Limerick, Belfast and Galway and employs 700 full-time-equivalents who cater for local clients, international clients and other KBC group companies. They are run by boards of directors, most of the members of which are resident in the countries in which the companies are established.

As regards transactions with other KBC companies, transfer pricing rules are strictly followed so that the transactions are priced or fees are charged in line with the market.

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