Reaction

Brussels, 27 March 2014

KBC provides clarification on tax ruling

A number of media reports have appeared today on differences of opinion within the Ruling Commission regarding a KBC application and refer to certain 'constructions'. Since the articles contain a number of serious, factual inaccuracies and are based on incorrect assumptions, KBC would like to clarify certain items.

- The application KBC submitted to the Ruling Commission concerned the possible issue of a capital instrument (an Additional Tier-1 instrument) pursuant to new definitions in Basel III, which is being transposed into Belgian law through the new banking act.

- KBC applied to the Ruling Commission for classification of an instrument of this type according to Belgian tax law, since it is important to know the extent to which certain instruments qualify as debt instruments or as equity capital/equity (i.e. to determine whether or not they are tax deductible).

- This application was submitted back in November 2013 via the Prefiling procedure. The formal ruling application setting out details of the planned issue was submitted on 31 January 2014. KBC received a formal decision from the Ruling Commission on 4 March 2014.

- In its application, KBC asked for similar tax treatment to that decided on by the local tax authorities in many other European countries following publication of the stricter requirements for Basel III instruments. This treatment has already been formally approved by the local authorities in the UK, France and Spain for the financial institutions established in those countries. Based on those local rules, other European banks have already issued Additional Tier-1 instruments. All KBC has done in Belgium is request similar treatment to avoid a competitive disadvantage relative to foreign players operating in Belgium.

- The capital generated by the Additional Tier-1 instrument will be used to repay Tier-1 loans issued pursuant to the former Basel II rules (as explained in KBC's press releases of 4, 12 and 13 March 2014). The coupons on these instruments were also tax deductible and are higher than the coupon that KBC will pay on its current Additional Tier-1 issue. The issue will, therefore, increase KBC's taxable base relative to its starting position and will result in a saving rather than an additional cost for the Belgian Treasury.

- The capital proceeds will be used to strengthen KBC's regulatory capital under the new Basel III capital requirements and will, therefore, in no way lead to the creation of tax-free dividend flows within the KBC group.

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