

Press release



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Schedule for publication on 15 October 2008:

- 08.00 a.m.CEST - Press releases are available at www.kbc.com
- 09.30 a.m.CEST - Teleconferencing for financial analysts (dial-in number to be obtained at: + 32 2 429 4051)
- 11.00 a.m. CEST - Press conference, KBC Head Office, Brussels, 2 Havenlaan

KBC takes decisive measures to reduce the volatility of future results and pro-actively publishes third-quarter result highlights

Due to severely tightened rating methods, the rating agency, Moody's Investor Service, yesterday downgraded the credit ratings on a number of CDOs in which KBC has invested. As it has the solvency position to do so, KBC is now applying the more stringent approach to its entire portfolio. In so doing, it is reducing future volatility in its results. To prevent speculation on the results' impact, KBC has decided to release information early on its third-quarter earnings. The group's financial position remains strong in every respect. For instance, the Tier-1 ratio for banking activities after this action has been taken will still be well above 8.5%.

Highlights - 3Q 2008

André Bergen, KBC Group CEO summarised the results as follows: 'Despite the difficult climate, the underlying commercial results are satisfactory. However, as has been repeatedly pointed out, the quarterly results are negatively affected by accounting mark-downs on investment portfolios. Given that KBC has a strong capital position, we have also decided to follow up the Moody's downgrades by marking down additional amounts. This is a kind of provision to absorb the volatility of future earnings, which should reduce customers' and shareholders' uncertainty regarding future results.' Total mark-downs on the CDO portfolio in the third quarter will come to 1.6 billion euros, resulting in the provisional net result for the third quarter falling to between -880 and -930 million euros. KBC's own capital buffer is more than adequate to absorb this and every aspect of KBC's financial position remains very strong. For instance, the Tier-1 ratio for banking activities after this action has been taken will still be well above 8.5%.

Underlying operating results satisfactory

Despite the difficult environment, core activities are performing satisfactorily, with robust operating results in Eastern Europe in particular. Due to the summer holiday period, third-quarter income is generally somewhat lower. Provisional 'underlying' profit for the third quarter - i.e. excluding factors outside the normal course of business and the effect of the financial crisis (see below) - amounted to over 500 million euros.

Satisfactory business development in Belgium continues

Despite the slowdown in economic growth, business development in Belgium remains satisfactory. Although income during the holiday period is traditionally lower, there has been an inflow of deposits since July, both from retail and corporate customers. Moreover, the credit quality remains very high.

Steady growth in Central and Eastern Europe

Organic growth of activities in Central and Eastern Europe remained solid while costs for credit risks remained well under control. Even after revising the macroeconomic forecasts for the region, KBC continues to support its growth ambitions. KBC is present mainly in those countries that are in relatively good macroeconomic shape and are less vulnerable structurally. 'Underlying' profit growth (i.e. excluding the impact of the financial crisis) for both the third quarter and the first nine months of this year will exceed 25%.

Merchant Banking and Private Banking perform satisfactorily in a difficult market

Profit generated by the group's merchant banking activities will be negatively affected by the current market conditions. The underlying result - i.e. excluding the effect of the financial crisis - is satisfactory and in line with the third-quarter results for the previous year. Loan losses remain relatively limited. The profit potential in the Private Banking Business Unit will - as in previous quarters - be marked by the weak stock market climate.

Weak stock market climate impacts value of the equities portfolio

In the third quarter, European stock markets fell by around 12% (measured by the MSCI Europe index). This has led to additional write-downs on the equities portfolio of some 165 million euros, mainly from insurance activities (net impact on the results: *idem*). This amount is in line with our expectations, announced with the second-quarter results on 7 August. By comparison, the write-down in the second quarter of 2008 came to 135 million euros.

Specific impact of the US banking crisis

As announced on 15 September, there is credit exposure, primarily via bonds purchased, to the US investment bank Lehman Brothers which went bankrupt. The final amount at the end of the third quarter will be slightly less than was initially estimated and will be written down at 85%. The same write-down percentage will be applied to the outstanding bonds from the US savings bank, Washington Mutual. The combined loss from the US bank sector amounted to 172 million euros (net impact on results: -120 million euros).

Market valuation of the structured credit portfolio

As announced a year ago, KBC has an outstanding portfolio of collateralized debt obligations (CDOs) for an (unchanged) nominal amount of 9 billion euros. In accordance with IFRS accounting rules, this portfolio is marked to market. Falls in value are recorded in full in the income statement (in contrast to some other banks who mark down the value against equity in the balance sheet because the CDOs are classified differently for accounting purposes). On 30 September, the mark-down on the CDO portfolio for the third quarter stood at 386 million euros (104 million for the counterparty exposure to monoline insurers and 282 million for changes in credit market prices and other factors). By comparison, the mark-down through the income statement in the second quarter of 2008 came to 315 million euros.

Anticipating future losses

On 14 October 2008, the rating agency, Moody's Investors Service, announced that it had downgraded the credit rating of a number of CDO securities. This decision was based on loss assumptions that are far more stringent than any others before them. KBC is sticking to its conservative policy of bringing the value of all securities with a credit rating below Ba3 to zero and is applying this retrospectively to its third-quarter results. Moreover, KBC has decided to apply the new rating hypotheses to its entire CDO portfolio and to record this mark-down in full in the third quarter. In so doing, KBC is largely preventing its future results being affected by additional rating downgrade. The combined impact of these decisions on the results will amount to around -1.25 billion euros (\pm -850 million euros after tax).

KBC still has a very strong capital base

On 30 September 2008, the Tier-1 ratio for the banking business was well above 8.5% (almost 7% of which was core capital). This is still above the sector average and the group's own cautious minimum threshold of 8%. The solvency margin for the insurance business was also almost double the legally required minimum.

In addition, the group has more than enough financing options

KBC is a bancassurer that primarily focuses on private and SME customers and therefore has a broad base of customer deposits. The net amount borrowed on the interbank market is very small in comparison with many competitors. KBC also has a considerable unused buffer in bonds (more than 50 billion euros) that it can use immediately to mobilise funds from the ECB. Lastly, KBC also has the option - if necessary or useful - to call on the government guarantee if it refinances on the market.

Final figures will be published on 6 November 2008

The above prognosis is based on provisional, unaudited figures from an early stage in the process of consolidating the results. They are therefore subject to change. In addition, the figures take no account of possible changes to European IFRS rules that could involve a reclassification of securities with effect from the third quarter of 2008. There is a Powerpoint presentation available at www.kbc.com. KBC will publish its definitive quarterly results on 6 November 2008, when detailed reports will again be provided containing information on the results and the structured credit portfolio. Questions can be directed to:

- investors: investor.relations@kbc.com
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