



CBFA

Press release

Strengthening KBC's core capital

The Belgian State and KBC Group concluded an agreement on 27 October 2008 whereby the Belgian State will strengthen KBC's core Tier I capital by 3.5 billion euros. KBC Group will use these new resources to carry out a capital increase of 2.25 billion euros at KBC Bank and a capital increase of 1.25 billion euros at KBC Insurance.

The Belgian State's contribution of 3.5 billion euros is in the form of a capital instrument with special features that make it much the same as an ordinary share. Like supervisory authorities elsewhere, the Belgian Banking and Insurance Commission (CBFA) has decided to recognise this instrument as core Tier I capital for the application of solvency regulations. As a result of the transaction, KBC Bank's core capital (or so-called core Tier I capital) will increase to more than 8% and its Tier I capital to more than 10%, while KBC Insurance's solvency margin will rise to well over 200% (on 30 September 2008, taking account of the *pro forma* capital increases).

The issue price of the new instruments comes to 29.5 euros (i.e. the average closing price of the KBC share on the last three trading days). The annual cash coupon will be 2.51 euros (reflecting an interest rate of 8.5%). If the dividend paid to the holders of KBC ordinary shares is higher than the annual interest, the payout will be increased to 105% of the dividend in 2008, to 110% in 2009 and to 115% in the years after. If no dividend is paid to the holders of ordinary KBC shares, no coupon will be paid.

The new instruments rank *pari passu* with existing KBC shares. KBC Group may at any moment buy back all or some of these instruments at 150% of their issue price. If the market price of ordinary KBC shares is higher, the Belgian State may in that case decide to exchange the instruments for ordinary KBC shares at a rate of one instrument for one share. After three years, KBC Group can request to exchange some or all of the instruments for ordinary shares. In such a scenario, the Belgian State can ask for the instruments to be redeemed in cash at 100% of their issue price.

The agreement between the Belgian State and KBC Group contains a number of conditions relating to the management of KBC Group. The Belgian State will be entitled to nominate two executive directors for appointment by the General Meeting of Shareholders of KBC Group. This means that a representative of the Belgian State will sit on the Audit Committee, the Remuneration and the Nomination Committee. The approval of these representatives will be required when the Board of Directors takes certain strategic decisions. The Board of Directors of KBC Group will refine the remuneration system for members of the Executive Committee and the senior management so that this is brought more into line with best practice in this particular area. Moreover, the members of the Executive Committees of KBC Group, KBC Insurance and KBC Bank are foregoing all bonuses (in cash, options or shares) for financial year 2008.



Given the importance of solid capital buffers in the current exceptional circumstances on the financial markets, this transaction will enable the KBC group - which already has a solid capital and liquidity position - to further develop its activities. The intervention on the part of the government is also aimed at protecting economic activity in Belgium.

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