



Press Release – Before trading hours - Regulated information*

Brussels, 13 July 2011

KBC Group formally applies to European Commission to amend its 2009 strategic plan

KBC Group confirms that, after careful and thorough consideration, it and the Belgian authorities yesterday formally applied to the European Commission to amend the strategic plan which was submitted on 30 September 2009 and which the European Commission approved on 18 November 2009 (the 'EC Decision'). The relevant notification has also been made to the National Bank of Belgium.

Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS rules on leases) and the difficulty involved in floating K&H in the current circumstances, some measures presented in the initial plan have become less effective in achieving the intended aim. In their application to the European Commission, KBC and the Belgian Authorities therefore propose replacing those measures by others.

KBC and the Belgian Authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake of CSOB Bank (Ceskoslovenska obchodni banka, a. s., Czech Republic) and K&H Bank Zrt. (Kereskedelmi es Hitelbank, Hungary) and the sale and lease back of KBC's headquarter offices in Belgium by the divestment of KBC's Polish banking and insurance subsidiaries, Kredyt Bank S.A. ('Kredyt Bank') and Towarzystwo Ubezpieczeń i Reasekuracji Warta S.A. ('Warta') (and their subsidiaries) and the sale or unwind of selected ABS and CDO assets.

KBC believes that the amendments proposed in its application respect the legal consistency of the EC Decision of 18 November 2009 and help the group achieve its objectives. KBC's main objective is and remains to execute the plan within the agreed timeframe and to repay the Belgian authorities in a timely manner.

The amendments proposed in the application to the European Commission are expected to release the same amount of capital as the originally intended measures.

KBC has prepared the application with great diligence following an open and constructive dialogue with the European Commission. The European Commission's decision is expected in the coming weeks. Meanwhile KBC continues to execute the rest of its 2009 strategic plan.

Jan Vanhevel, KBC Group CEO added: 'The results of last year and of the first quarter of 2011 prove that the fundamentals of the KBC group are solid and that we have a sound business model. Over the last 19 months, we have made steady progress in implementing the plan that was approved by the European Commission in November 2009. KBC is gradually becoming a more focused and less complex group, while maintaining economies of scale. Our group has more stable and predictable earnings and an adjusted and reduced risk profile, while retaining our growth options and the confidence of all our stakeholders. We remain firmly committed to the bancassurance model which is at the core of our strategy and which we continue to develop within our home markets. These strong fundamentals will remain the cornerstone of our group's future.

However, as good business practice and a reflection of sound management, we cannot and must not close our eyes to the changes around us, particularly the changed regulatory environment, the impact on the effectiveness of some of the measures foreseen in our initial plan and the consolidation trend recently observed on the Polish financial market. Therefore, we see it as our duty and responsibility towards all our stakeholders and particularly towards the Belgian and

Flemish governments to whom we made a commitment to redeem the government securities within a reasonable timeframe, to investigate and propose alternative measures. KBC is now looking forward to the European Commission's decision regarding the amendments proposed in its formal application.'

1. Background to KBC's 2009 strategic plan

On 18 November 2009, the European Commission approved the asset relief and restructuring plan for KBC Group under the European Commission Treaty state aid rules. The plan foresees strategic and financial restructuring through the divestment, run-down and listing of various businesses. The European Commission was satisfied that the package of measures will ensure that KBC will bear a significant portion of the restructuring costs, that it will restore the long-term commercial viability of the group, and that it will tackle the distortions of competition that result from the state aid.

KBC started executing the plan immediately after it was approved in November 2009 and committed to repaying the government securities through:

1. Generating profit (to strengthen the balance sheet) by building on the strengths of its core bancassurance activities in its home markets, targeted towards retail and SME customers and local mid-caps;
2. Reducing risk weighted assets (RWA) and thus freeing up capital (primarily through reducing the international loan book outside KBC's home markets and not linked to key customers); KBC has currently executed more than half of the planned 39-billion-euro reduction in RWA;
3. Divesting a number of non-core assets; several divestments have already been announced and closed in the course of 2010 and 2011 (e.g. Centea, Peel Hunt, Secura, KBC Business Capital, KBC Asset Management UK and Ireland, KBC Securities Baltic Investment Company, several entities of KBC Financial Products);
4. Financial restructuring measures such as the IPOs of a minority share (maximum 40%) of CSOB Bank (Czech Republic) and K&H Bank (Hungary), and the sale and lease back of KBC's headquarter offices in Belgium.

2. External factors impacting the effectiveness of KBC's strategic plan

Over the last 19 months, the environment and the world around us have changed and they continue to change. KBC constantly and closely monitors changes in the financial markets that could influence the implementation of its strategic plan.

By the end of 2010, when **new Basel III and draft IFRS rules on leases** were announced, it became clear that the impact of some of the Basel III rules would render certain measures presented in the initial strategic plan less effective in achieving the intended aim of raising sufficient capital to redeem the government securities in a timely manner and to ensure that KBC itself contributes an appropriate amount to the costs of its restructuring. Consequently, in its application to the European Commission, KBC has proposed replacing those measures by others.

1. Impact of Basel III Standards on the CSOB and K&H IPOs

The Bank for International Settlements' report 'Basel III: A global regulatory framework for more resilient banks and banking systems (Basel III standards)' foresees changes in the recognition of minority interests (i.e. non-controlling interests) and other capital issued out of consolidated subsidiaries that is held by third parties. This report – with detailed interpretations of minority treatment under Basel III – was published in December 2010. These changes will significantly lower the positive capital impact of floating minority stakes of CSOB Bank and K&H Bank. Although the listing of the two banks could still be a way to raise capital and provide own contribution to restructuring, the result on KBC's capital position and solvency is facing a more stringent effect under Basel III than initially planned and desired.

2. Impact of Hungarian banking tax on the K&H IPO

In addition to the negative impact of new Basel III regulation on the recognition of minority interests, the IPO of K&H Bank would also be seriously hampered in the coming years by the introduction of the banking tax in Hungary. In 2010, the tax reduced the net profit of K&H Bank by more than one third, and it will continue to have a substantial impact on the net profit of K&H Bank in 2011 and 2012. Political discussions on the future levels of this tax are ongoing but as it currently stands it is not expected to be completely phased out in the coming years. The reduction in the net profit of K&H Bank on account of the banking tax makes a listing of a minority stake of K&H very difficult.

3. Impact of the change in IFRS Accounting Standards for leases on the sale and lease back of KBC's headquarter offices

Current IFRS rules allow for the release of capital requirements related to real estate where an operational rather than a financial lease is arranged following an asset sale or a sale and lease-back transaction. However, new rules are being drafted in the scope of a project aimed at developing a new single approach to lease accounting that would ensure that all assets and liabilities arising under lease contracts are recognised in the statement of financial position (balance sheet). The new IFRS Standards on leases* aim to abolish entirely the current distinction between financial and operational leases. Under the new IFRS Standards on leases, all 'right-of-use' included in rental contracts will need to be recorded as an asset with an expected 100% capital weight (the same as real estate). As a result of these new standards, the anticipated sale and lease back of KBC's headquarter offices in Belgium would not release any capital.

**The International Financial Reporting Standards Foundation published the IFRS Exposure Draft ED/2010/9 Leases in August 2010 ('New IFRS Standards').*

3. Alternative measures proposed

KBC is conscious of its commitment not only to achieve the intended capital release through financial restructuring measures (thereby ensuring an appropriate contribution by KBC to the costs of its restructuring) but also to ensure the timely repayment of the government securities. Therefore, KBC has investigated its options and together with the Belgian authorities has formally applied to the European Commission for its approval of the divestment of Kredyt Bank and Warta, as well as the sale or unwind of selected ABS and CDO assets instead of the listings of CSOB Bank (Czech Republic) and K&H Bank (Hungary) and the sale and lease-back transaction for its headquarter offices in Belgium. The decision to selectively sell ABS assets and selectively unwind some CDOs reflects improved market conditions and a return of liquidity for such instruments, which will allow KBC to release substantial amounts of capital (certainly in view of CRD3) at no or limited loss to the group.

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