



Joint press release – Outside trading hours – Regulated information*

Brussels, 20 December 2012

KBC and Belgian Federal Government reach agreement on review of CDO guarantee agreement

In May 2009, KBC and the Belgian Federal Government concluded a guarantee agreement (the Portfolio Protection Agreement or PPA) for KBC's CDO and ABS portfolio.

By the end of this year, KBC will have paid almost 1.2 billion euros to the Federal Government for this guarantee. However, the government has not yet had to pay any amounts under the agreement.

Deputy Prime Minister and Minister of Finance Steven Vanackere and KBC have amended the agreement and added an incentive for KBC to accelerate reduction of the remaining exposure.

In May 2009, KBC and the Belgian Federal Government concluded a guarantee agreement (the Portfolio Protection Agreement or PPA) for KBC's CDO and ABS portfolio which took legal effect on 28 December 2009. The agreement explicitly stipulated that it would be reviewed by both parties after three years.

Through natural processes and KBC's active management of the underlying investment portfolio (Collateralised Debt Obligations and Asset Backed Securities), the amounts covered by the government have fallen substantially, from 15.1 billion euros to 9.4 billion euros. By the end of this year, KBC will have paid almost 1.2 billion euros to the Federal Government for this guarantee. However, the government has not yet had to pay any amounts under the agreement.

KBC has continued to work in recent months on reducing its exposure to the aforementioned portfolio. Together with the Belgian Federal Government, it has also thoroughly analysed how it could further cut the government's exposure to KBC and, therefore, to the financial sector. This is important because the government's exposure to the financial sector is one of the factors the rating agencies use to determine Belgium's rating.

Additional clauses have been added to the revised agreement that grant KBC a conditional discount on the outstanding premiums (under certain strict conditions and limited to a set maximum amount). In other words, the government has included an incentive for KBC if KBC succeeds in significantly reducing the government's exposure. KBC does not currently expect the new agreement to have any material impact on its fourth quarter results. Any future impact on its results will depend on market conditions and opportunities that arise going forward.

Minister Steven Vanackere commented on the agreement as follows: *'Following the full repayment by KBC earlier this week of the 3.5 billion euros in financing, this agreement is an added incentive to accelerate reduction of the Federal Government's exposure to KBC and the financial sector.'*

Johan Thijs, KBC Group CEO, had the following to say: *'I would like to take this opportunity to express our appreciation and gratitude to the Belgian Federal Government for the guarantee agreement concluded in 2009 when the cover we had through the US reinsurer, MBIA, turned out to be of little value after that company's rating was suddenly downgraded. We have substantially reduced our risk position in recent years. The total Portfolio Protection Agreement initially covered 20 billion euros. Of that amount, KBC would bear the first loss. That 20 billion euros has now been cut back to 12.2 billion euros, 9.4 billion euros of which is guaranteed by the Government. KBC has repeatedly stated over the past few years that it wanted to cut back its risk profile. It will continue doing so going forward as and when opportunities arise.'*

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