Clarification

11 August 2009

KBC to clarify suspension of coupon payment on outstanding KBC Bank 525 million GBP hybrid Tier-1 issue

Having issued core capital securities to the State in order to strengthen its solvency level, KBC's company restructuring plan needs to gain clearance from the European Commission. On 6 August, KBC communicated that KBC was advised by the European Commission to refrain, until the end of the year, from payment of "discretionary coupons" on its perpetual subordinated hybrid Tier-1 securities.

- The restriction is expected to impact the directly issued perpetual debt securities issued by KBC Bank in a total amount of 525 million sterling (in 2003, 2004 and 2007).
- For the KBC Bank funding Trust II 280 million euros 1999 issue, coupon payments in the second half of 2009 remain uncertain as they are subject to ongoing discussions with the European Commission.
- For the other hybrid securities, coupon payments in the second half of 2009 are considered to be non-optional and will be paid.

What makes the coupon payment for the KBC Bank 525 millions sterling issue "discretionary"?

Pursuant to conditions 4(i) ("deferred coupons") and 5(a) ("deferral notice") of the offering memorandum, and assuming no "net asset deficiency event" occurs (as defined in the prospectus), KBC Bank NV may in its sole discretion defer the payment of interest unless such interest would or would become mandatorily due.

Pursuant to conditions 5(b) ("payment of deferred coupon") and 6(b) ("mandatory coupons"), interest would be mandatorily due if KBC Group NV or KBC Bank NV were to pay any dividend on or redeem any junior securities or parity Securities. This would, for example, be the case if any dividend is declared on the ordinary shares of KBC Group, which fall under the definition of junior securities. Currently, there are no parity securities (as defined in the prospectus) outstanding.

As at today's date, KBC does not anticipate to make any payment in respect of any junior securities prior to 19 December 2009. Accordingly, as a consequence of the restrictions imposed by the European Commission, KBC will, absent any such payment, be required to exercise its discretion and withhold the interest payment falling due on 19 December 2009. At this time, it remains unclear if and when KBC will make any payment in respect of junior securities in the course of 2010.

Finally, coupon payments on the sterling hybrid securities do not rank pari passu with coupon payments to holders of other KBC hybrid securities (see condition 3(a) ("*Status of the securities"*)). Therefore, coupon payments to holders of other KBC hybrid securities in 2009 (whether in the first or second half of the year) do not trigger a coupon payment to the holders of the sterling hybrid securities.

What differences in KBC Bank Funding Trust III and IV make their coupon payments in November 2009 not affected by the coupon embargo?

The coupon payments (referred to as "dividends" in the relevant Offering Memorandum) due in November 2009 with respect to securities issued by KBC Bank Funding Trust III is mandatory, as set forth in the offering memorandum, on page 7: *"Whether or not a Supervisory Event (…) has occurred, Dividends on the Class B Preferred Securities will be deemed declared in full by the Board for the purposes of the Bank Guarantee on (i) the two consecutive Semi-Annual Dividend Dates through November 2, 2009 (…)"*

The same is true with respect to the securities issued by KBC Bank Funding Trust IV (see also page 7 of the relevant Offering Memorandum for such securities).

The November payment date also constitutes the first call date for those securities. After such first call date, the payment of the coupons is governed by different clauses in the offering memorandum. The question whether coupon payments after November 2009 in respect of the securities issued by KBC Bank Funding Trust III and IV are mandatory (the first ones to occur in February 2010), depends on further discussions with the European Commission.

Currently, the European Commission is examining whether the coupon payment due in September 2009 in respect of securities issued by KBC Bank Funding Trust II is mandatory, based on similar clauses in the offering memorandum of KBC Bank Funding Trust II.

The terms and conditions of the securities issued by KBC Bank Funding Trust II are similar to those of the securities issued by KBC Bank Funding Trust III and IV. However, with respect to the securities issued by KBC Bank Funding Trust II, the first call date was on June 30, 2009. On such date, there was also a mandatory coupon payment, based on the same condition as cited above. The coupon payment due on September 30, 2009 with respect to the securities issued by KBC Bank Funding Trust II is governed by different clauses in the offering memorandum (currently being investigated by the European Commission).

To what extent does the coupon restriction impact the other hybrid securities issued by KBC Bank in May and June 2008?

The terms and conditions of the 2008 hybrid securities are different from the KBC Bank 525 millions sterling issue. Coupons on the 2008 hybrids were paid in May and June of 2009, and the next coupon payment is not due until respectively May and June 2010. The payment of coupons on hybrids that fall due in 2010 or later is also subject to further discussions with the European Commission. Therefore, KBC cannot make any definitive statements with respect to such coupon payments.

The terms and conditions of the 2008 hybrids allow for an “elective deferral” of the coupon payment by the KBC. However, in the event of such an “elective deferral” (and assuming no “net asset deficiency event” has occurred and is continuing), such deferred coupon will become due and payable 90 business days after the interest payment date in respect of which the coupon was deferred (see condition 5(b) of the prospectus).

Did the EC only request the non-payment of coupons until the restructuring plan was approved? Will there be any such restrictions after the final approval by the EC?

Indeed, the decision of the European Commission only relates to coupon payments to holders of KBC hybrids due in the period during which no definitive approval of the KBC state aid plan has taken place. Further restrictions may also be imposed as part of the final approval decision of the European Commission, which is expected before the end of the year.

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