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## State aid: Commission approves recapitalisation of Belgian KBC Group

***The European Commission has approved, under EC Treaty state aid rules, an emergency recapitalisation worth €3.5 billion that the Belgian authorities intend to grant to KBC Group N.V. The Commission found the measure to be in line with its Guidance Communications on state aid during the current financial crisis (see [IP/08/1495](#) and [IP/08/1901](#)). The measure constitutes an adequate means to remedy a serious disturbance in the Belgian economy while avoiding undue distortions of competition and is therefore compatible with Article 87.3.b. of the EC Treaty. In particular, the measure is limited in scope, requires an adequate remuneration and provides safeguards to minimise distortions of competition.***

Competition Commissioner Neelie Kroes said: "The capital injection is necessary to maintain the market's confidence in KBC and to ensure its contribution in providing loans to the real economy. This decision demonstrates once again that the Commission can approve measures very quickly, once it has received all the information necessary for the evaluation."

On 1 December 2008, the Belgian authorities notified their plans to recapitalise KBC Group N.V. with €3.5 billion via a special type of securities. The subsequent changes to the foreseen transactions agreed to by the Belgian State and KBC have been communicated to the Commission on 5 December 2008 and the amended Term Sheet transmitted on 11 December 2008.

Due to the current financial crisis, even fundamentally sound institutions like KBC Group N.V. may experience distress and be required to reassure financial markets of their stability. Against this background, it was considered necessary to strengthen KBC's capital base against possible future losses. Thus, the capital injection will increase the tier 1 ratio of KBC Bank to above 10% and the solvency ratio of KBC Insurance to 280%.

The securities to be issued would qualify as core tier 1 capital and produce an annual coupon equal to the higher of:

- € 2.51 per security, non cumulative, payable annually in arrears
- 120% of the dividend paid on the ordinary shares in 2009
- 125% of the dividend paid on the ordinary shares from 2010 onwards.

The coupon would only be paid if a dividend is paid on ordinary shares. If KBC decides to buy the securities back, it would have to pay 150% of the issue price. In case KBC requests the conversion of the securities into ordinary shares, the Belgian authorities can require repayment of the securities at a value of between 115% and 150% of the issue price, depending on the timing of such conversion.

The Commission concluded that the measure complies with the conditions laid down in its Guidance Communications (see [IP/08/1495](#) and [IP/08/1901](#)). In particular, the measures meet the following criteria:

- necessity: KBC has an important role within the Belgian financial sector - a loss of confidence in this institution would have led to a further disturbance of the current financial situation and harmful spill-over effects to the economy as whole
- appropriate own contribution: even with the uncertainty inherent in core tier 1 securities, KBC would pay, taking into account the annual coupon and the repurchase options, an adequate remuneration to the state, with an expected return in excess of 8.8%. Adequate safeguards are in place so that the Commission is informed if there are any deviations and, if necessary, can impose additional behavioural constraints
- avoidance of undue distortions of competition: the package foresees sufficient behavioural rules to prevent an abuse of the state support, e.g. the maintenance of a certain solvency ratio.

The non-confidential version of the decision will be made available under the case number [N 602/2008](#) in the [State Aid Register](#) on the [DG Competition](#) website once any confidentiality issues have been resolved. New publications of state aid decisions on the internet and in the Official Journal are listed in the [State Aid Weekly e-News](#).