Earnings Statement
KBC Group, 2Q 2009 and 1H 2009

Regulated information* - 6 August 2009, 7 a.m. CEST

Summary

For the second quarter of 2009, KBC achieved a net positive result of 302 million euros. Excluding exceptional items, underlying net profit came to 409 million euros. In many fields, the operating environment turned positively since the start of the year and this trend largely persisted during the second quarter. Jan Vanhevel, recently appointed Group CEO: ''*Business margins remained strong, sentiment on the capital markets improved, insurance results were solid and cost cutting is paying off. Trends for problem loans rose, but remained within expectations'*.

'A number of exceptional items were recorded as we took additional measures to further reduce future earnings sensitivity, such as the acquisition of a guarantee from the State for capping CDO-related losses. We also marked down some investment banking positions that have been discontinued.'

Key figures, overview:

In millions of EUR	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	cumul. 1H 2008	cumul. 1H 2009
Net profit (IFRS)	554	493	-906	-2 625	-3 600	302	1 047	-3 298
Underlying net profit	737	806	551	176	465	409	1543	875
Breakdown of underlying profit by business unit:								
Belgium Business Unit	455	318	215	158	255	289	773	543
Central & Eastern Europe and Russia Business Unit	180	222	201	84	106	71	402	177
Merchant Banking Business Unit	89	234	137	-42	91	41	323	132
European Private Banking Business Unit	50	64	32	15	34	44	114	78
Group Centre	-36	-32	-34	-38	-21	-35	-69	-55
Shareholders' equity per share (EUR, at end of period)	45.7	45.5	42.0	31.5	19.5	23.2	45.5	23.2

Financial highlights for 2Q 2009:

- Resilient margin environment; recovery of margins in previous quarter confirmed
- Improved investment climate halting previous negative impact on earnings: more fee and commission income, no more (noteworthy) share portfolio impairment and positive CDO revaluation (considered as exceptional result)
- Continued favourable cost trend: on underlying basis, costs were down 14% year-on-year
- Stable loan impairment charges in Belgium and Eastern Europe, rising for international credit exposure
- Exceptional: (pre-announced) cost of the guarantee purchased from the Belgian State: 740 million euros post tax
- Exceptional: significant markdown of certain assets of KBC Financial Products businesses that are already in the process of being wound down

* This news release contains information that is subject to transparency regulations for listed companies.

Financial highlights - 2Q 2009

Jan Vanhevel, Group CEO summarises the underlying business performance for 2Q 2009 as follows:

- *'On an underlying basis, interest income grew by 7% year-on-year. While volume growth slowed in Eastern Europe and merchant banking outstandings were reduced, credit and deposit spreads remained healthy.'* The net interest margin for banking was broadly stable at 1.8% after the strong rise recorded in the previous quarter.
- *'Though trends are still somewhat fragile, fee and commission income was up 19% on the previous quarter, benefiting from the improved investment climate. For the same reason, the quarterly series of negative CDO revaluations and share portfolio impairments came to an end. Trading results were also strong.'*
- *'Operating expenses were down for the second consecutive quarter and ended 14% lower year-on-year. Normal cost inflation was offset by various cost containment measures across business units and the effect of the downsizing of merchant banking activities.'*
- *'Compared to the previous quarter, loan losses remained stable for both Belgium and for Eastern Europe. Losses on the non-domestic loan book outside Belgium and Eastern Europe rose, especially in relation to the credit exposure to the US (largely for mortgage-backed securities), the UK (mostly corporate) and Ireland (primarily residential mortgages).'* The year-to-date credit cost ratio stood at 0.76% annualised, or at 1.01% when the mortgage-backed securities are included.

Headlines of underlying performance per business unit:

- *'With net interest and asset management fee income up, costs down, a good performance from the insurance business and loan losses at a stable low level, the Belgium Business Unit again delivered rather well.'* The year-to-date return on allocated equity came to 31%.
- *'Compared to the preceding quarter, income from Eastern Europe was down due to lower trading revenue and revaluation results on hedges, but since loan impairment did not increase, the year-to-date credit cost ratio remained broadly stable at 1.75%.'*
- *'Loan impairment in merchant banking went up, especially related to exposure to Ireland, with a year-to-date credit cost ratio 0.67%, and the UK. And we also set aside 138 million euros' worth of general provisions for the US mortgage-backed securities portfolio. But this was largely offset by solid sales and trading results for money and securities markets' activities.'*
- *'Though market conditions remained tough, results from the European Private Banking Business Unit were up on the previous quarter. Although there was some net money outflow in our offshore activities, assets under management rose 5% compared to the previous quarter.'*

The quarter was also characterised by a number of one-off items that were not part of the normal course of business and were excluded from the presented underlying results. The main items were:

- The fee of 1.1 billion euros (0.7 billion euros after tax) paid for the guarantee KBC bought from the State to cover the potential downside risk on the value of its collateralised debt obligations (CDOs).
- The market price for corporate credit – reflected in credit default swap spreads – improved markedly, generating a value mark-up of KBC's CDO exposure. The positive impact on earnings from the CDO revaluation amounted to 1.3 billion euros (including the positive impact from the acquired guarantee and the negative impact from the increase in the coverage of the CDO-linked counterparty risk against MBIA, the US monoline insurer, from 60% to 70%).
- The new management team decided to set aside a reserve against losses related to the future discontinuation of activities in KBC Financial Products (Merchant Banking), while marking down trading positions that are being run off in the amount of 0.7 billion euros, net. It is currently also reviewing potential future scenarios for the remaining businesses of KBC Financial Products. Moreover, a net impact of -0.2 billion euros was recorded related to CDOs sold to customers.

Financial highlights – 1H 2009

The income statement summary table is on page 5 of this earnings release. Explanations per heading:

- The *net result* for the first half of 2009 amounted to -3.3 billion euros. This figure includes exceptional items (totalling -4.2 billion euros, net) such as value losses on CDO investments, the fee paid for the guarantee bought to cover the remaining CDO-linked exposure and the write-down of positions for discontinued trading activities. Adjusted for those items, (underlying) profit came to a positive 875 million euros.
- *Net interest income* came to 2.9 billion euros, up 18% year-on-year (+10% on an underlying basis). Volume growth was particularly solid in the second half of 2008, while margins recovered significantly at the start of 2009. As at 30 June 2009, the customer loan book (excluding reverse repos) stood, on an organic basis, at the same level as a

year earlier (up 9% in Belgium and 12% in Central & Eastern Europe and Russia, but down 7% in Merchant Banking). The net interest margin for banking came to 1.8%, up from 1.7% for the first half of 2008.

- *Gross earned premiums* in insurance stood at 2.6 billion euros, up 14% compared to the year-earlier figure. Net of *technical charges* and the *ceded reinsurance result*, the income was 241 million euros. The combined ratio for the non-life insurance activities again came to 92%, a very favourable level.
- *Dividend income* from equity investments amounted to 82 million euros, markedly lower than the 159 million euros reported for the first half of 2008. The equity investment portfolio shrank substantially (to 2.3 billion euros from 4.4 billion euros a year earlier) while, in general, corporate dividend payouts were also lower.
- *Net gains from financial instruments at fair value* came to -3.7 billion euros. Although sales and trading activities on money and debt securities markets performed well, this income heading was strongly impacted by net negative value adjustments on structured credit exposure (including 1 121 million euros to cover the cost of the newly acquired guarantee) and the marking down of discontinued derivative positions. On an underlying basis, this income heading came to +551 million euros.
- *Gains from available-for-sale assets* (mostly on investments in shares) were limited to 47 million euros. Due to the poor equity market performance until March 2009, this was considerably below the year-earlier figure of 260 million euros.
- *Net fee and commission income* amounted to 690 million euros. This is 25% lower than the year-earlier level, largely due to the lower volume of assets under management consequent on the prevailing investment climate.
- *Other net income* ended at 268 million euros, somewhat above the year-earlier amount of 225 million euros.
- Excluding exceptional items, *operating expenses* were down 9% year-on-year. Cost containment measures were implemented across all business units. The underlying cost/income ratio for banking stood at 56%, compared to 64% for 2008.
- Total *impairment* charges stood at 1.3 billion euros, of which 886 million euros related to loans and receivables. This corresponds with a credit cost ratio of 1.01% (0.14% for the Belgium Business Unit, 1.75% for Central & Eastern Europe and Russia and 1.31% for Merchant Banking including US mortgage-backed securities). Excluding the charge for US mortgage-backed securities, the credit cost ratio for the group came to 0.76% (0.71% for Merchant Banking). *Available-for-sale* investment securities, mainly shares, were impaired to the tune of 330 million euros on the back of the prevailing poor equity market environment up to the end of the first quarter of 2009. An impairment loss of 124 million euros was recognised on the value of goodwill outstanding, related, among other things, to acquisitions in Bulgaria.
- As pre-tax results were negative, a deferred *income tax* credit of 258 million euros was recognised.
- As at the end of June 2009, *parent shareholders' equity* came to 14.9 billion euros. Shareholders' equity was up 0.7 billion euros on the start of the year as the negative year-to-date result was offset by the positive impact of the non-dilutive capital securities issued to the State (Flemish Regional Government) and positive market value adjustments on assets. The tier-1 capital ratio for banking stood at 10.8% (of which 8.1% core tier-1), while the solvency margin for the insurance business came to 182%.

Strategy highlights and future developments

- Jan Vanhevel, CEO: '*The operating environment has improved since the start of the year. Leading indicators signal that the economy is bottoming out. Expectations, however, remain that it may recover only very gradually.'* Therefore, non-performing loan trends are anticipated to continue to be upwards until at least the end of the year. Developments in some Eastern European markets and also Ireland remain areas of attention. Loan losses on the mortgage-backed securities portfolio are also being closely monitored. To adequately deal with the cyclical downturn, underwriting criteria remain tight, especially for lending in non-core markets and higher-risk areas, and a group-wide cost containment project is being implemented.
- In order to secure its solvency level, KBC issued non-voting capital securities in 2009 in the amount of 3.5 billion euros subscribed by the State (Flemish Regional Government). KBC also agreed the purchase of a CDO-linked guarantee from the State (Belgian Federal Government).
- Moreover, KBC is working on a comprehensive review of its strategy for the future, which will also result in releasing a significant amount of capital while safeguarding core earnings power. Combined with future retained earnings, the release of capital will enable the group to repurchase over time the capital securities issued to the State. Jan Vanhevel, CEO: '*The current business strategy review is looking at the various lines of activity within each business unit and assessing their performance under various economic scenarios.*' KBC had already announced the downsizing of international corporate lending outside its home markets, and the run-off of structured finance activities within KBC Financial Products.
- The review will form the basis of the restructuring plan to be submitted to the European Commission in the context of the capital transactions with the State. *'The EU granted temporary approval at the end of June and is expected to*

give final approval in the second half of the year. We hope to be able to communicate on the details early in December.' Management's priority will be to ensure that the restructuring process has a significant impact. A new CEO has been appointed and the senior management team rejuvenated (with full effect on 1 September 2009).

- Jan Vanhevel, CEO: *'Pending regulatory approval of the restructuring plan, KBC was advised to refrain from exercising its call options until the end of the year with respect to its perpetual subordinated hybrid tier-1 securities.'* This restriction impacts the hybrid securities issued by KBC Bank Funding Trust II (280 million euros, 1999 issue), KBC Bank Funding Trust III (600 million US dollars, 1999 issue) and KBC Bank Funding Trust IV (300 million euros, 1999 issue). In addition, an embargo on discretionary coupon payments on hybrid securities of KBC was imposed. This restriction impacts the hybrid securities issued by KBC Bank totalling 525 million Sterling (in 2003, 2004 and 2007). The payment of the coupon by KBC Bank Funding Trust II (280 million euros 1999 issue) remains subject to discussion with the European Commission at this time. Jan Vanhevel: *'For other securities, coupons are mandatory and will be paid'.*

Additional information on the financial statements

- During the first half of 2009, changes to the scope of consolidation or to valuation rules had no material net impact on earnings.
- On average for the second quarter, there was no material change in the value of local currencies in Central and Eastern European markets compared to those of the previous quarter. However, when comparing the second quarter to the same period of 2008, the average value of those currencies depreciated by 10% against the euro, with a negative impact on the earnings components of the Central & Eastern Europe and Russia Business Unit. Likewise, depreciation of 10% was observed when comparing the entire first half of 2009 to the same period a year earlier.
- Shareholders' equity as at 30 June 2009 (14.9 billion euros) comprises the non-voting equity securities issued to both the Belgian Federal State and the Flemish Regional Government of Belgium, totalling 7 billion euros.
- Shareholders' equity per share as at 30 June 2009 (23.2 euros) was calculated on the basis of 339.5 million shares, whereby the number of treasury shares held (18.2 million) was deducted from the number of ordinary shares (357.8 million). For this purpose, the amount of non-voting capital securities subscribed by both the Belgian Federal State and the Flemish Regional Government of Belgium, was deducted from shareholders' equity.
- Earnings per share for 2Q 2009 (+0.9 euros) was also calculated on the basis of 339.5 million shares, and diluted earnings per share (+0.9 euros) was calculated on the same basis. As exercise prices are significantly above market price, stock options granted to employees and the conversion option held on core capital securities issued to the State do not, according to IAS33, have to be added to the share count for calculating diluted earnings per share. Also according to IAS33, the share underwriting commitment by the State (linked to the CDO guarantee scheme) has no impact either since the potential share issue would take place at market price.
- As usual, KBC has made additional risk disclosures on the composition of both its loan book and its structured credit exposure as at 30 June 2009 (available in the extended quarterly report, English version, at www.kbc.com/ir).
- KBC will publish its results for 3Q 2009 on 13 November 2009. An extended version of the financial calendar, including analyst and investor meetings, is available at www.kbc.com/ir/calendar.

Overview of results according to IFRS – 2Q 2009 and 1H 2009

A summary of the income statement of KBC group, based on the *International Financial Reporting Standards* (IFRS) is given below. A full overview of the IFRS consolidated income statement and balance sheet is provided in the 'Consolidated Financial Statements' section of the quarterly report. A condensed statement of changes in shareholders' equity and several notes to the accounts are also available in the same section. As stated earlier, since the third quarter of 2008, earnings were markedly impacted by value adjustments of investment portfolios. In order to provide a good insight into the underlying business trends, KBC also publishes its 'underlying' results (see the following section).

Consolidated income statement, KBC Group (in millions of EUR) - **IFRS**	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	cumul. 1H 2008	cumul. 1H 2009
Net interest income	1 163	1 311	1 249	1 269	1 477	1 441	2 474	2 918
Gross earned premiums, insurance	1 236	1 008	922	1 419	1 308	1 256	2 245	2 564
Gross technical charges, insurance	-1 078	-820	- 804	-1 181	-1 164	-1 127	-1 898	-2 291
Ceded reinsurance result	- 10	-17	- 17	- 27	- 15	-17	-27	-32
Dividend income	36	123	37	63	23	60	159	82
Net (un)realised gains from fin instruments at fair value	- 26	35	-1 688	-1 801	-3 742	78	8	-3 663
Net realised gains from available-for-sale assets	198	63	80	- 246	34	13	260	47
Net fee and commission income	438	477	422	377	317	372	914	690
Other net income	129	97	210	183	152	116	225	268
Total income	2 084	2 276	411	56	-1 610	2 193	4 360	583
Operating expenses	-1 278	-1 310	-1 351	-1 660	-1 235	-1 518	-2 588	-2 754
Impairment	- 98	-332	- 478	-1 325	- 707	-633	-430	-1 340
o/w on loans and receivables	- 27	-143	- 130	- 522	- 307	-578	-170	-886
o/w on available-for-sale assets	- 71	-180	- 341	- 742	- 311	-19	-250	-330
Share in results of associated companies	16	8	9	- 33	0	-2	24	-1
Profit before tax	723	642	-1 410	-2 963	-3 552	40	1 365	-3 512
Income tax expense	- 144	-121	533	360	- 28	286	-264	258
Profit after tax	579	521	- 876	-2 603	-3 580	326	1 101	-3 254
attributable to minority interests	26	28	30	22	20	24	54	44
attributable to the equity holders of the parent	**554**	**493**	**- 906**	**-2 625**	**-3 600**	**302**	**1 047**	**-3 298**
Belgium	357	194	- 227	- 721	- 5	287	551	281
Central & Eastern Europe and Russia	159	203	- 32	- 142	44	42	362	87
Merchant Banking	31	125	- 519	-1 801	-3 738	-153	156	-3 891
European Private Banking	43	48	- 88	- 155	26	29	90	55
Group centre	- 35	-77	- 40	193	73	97	-112	170
Earnings per share, basic (IFRS, in EUR)	1.62	1.45	-2.66	-7.72	-10.60	0.89	3.07	-9.71
Earnings per share, diluted (IFRS, in EUR)	1.62	1.45	-2.65	-7.70	-10.60	0.89	3.07	-9.71

Highlights, consolidated balance sheet and ratios (in millions of EUR or %)	31-12-2008	30-06-2009
Total assets	355 317	344 415
of which loans and advances to customers	157 296	158 949
of which securities (equity and debt instruments)	94 897	96 559
Total liabilities	339 941	328 379
of which deposits from customers and debt certificates	196 733	194 141
of which gross technical provisions, insurance	19 523	20 860
of which liabilities under investment contracts, insurance	7 201	6 987
Parent shareholders' equity	14 210	14 888
Return on equity (based on underlying results, year-to-date)	16%	17%
Cost/income ratio (based on underlying results, year-to-date)	64%	56%
Combined ratio, non-life (based on underlying results, year-to-date)	95%	92%

For a definition of ratios, see "glossary and other information".

More information on the balance sheet can be found in the Consolidated Financial Statements part of the quarterly report.

Overview of the underlying results – 2Q 2009 and 1H 2009

Over and above the figures according to IFRS, KBC provides a number of 'underlying' figures aimed at providing more insight into the business trends.

The differences with the IFRS figures relate to a) the exclusion of exceptional or non-operating items (including financial impacts due to the financial crisis), b) the exclusion of fair value income due to changes in own credit spreads and c) the accounting treatment of certain hedging derivatives used for Asset and Liability Management purposes and of certain income components related to capital-market activities. In view of their exceptional nature and materiality, it is important to adjust the results for these factors to understand the profit trend fully. A reconciliation of net profit according to IFRS and underlying net profit is provided on the next page.

Consolidated income statement, KBC Group (in millions of EUR) - **UNDERLYING FIGURES**	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	cumul. 1H 2008	cumul. 1H 2009
Net interest income	1 202	1 257	1 186	1 265	1 353	1 344	2 459	2 697
Gross earned premiums, insurance	1 236	1 008	922	1 419	1 308	1 256	2 245	2 564
Gross technical charges, insurance	-1 078	-820	-804	-1 181	-1 164	-1 127	-1 898	-2 291
Ceded reinsurance result	-10	-17	-17	-27	-15	-17	-27	-32
Dividend income	19	103	20	54	12	47	122	59
Net (un)realised gains from fin instruments at fair value	114	403	242	175	231	321	517	551
Net realised gains from available-for-sale assets	198	63	80	2	51	41	261	92
Net fee and commission income	464	482	430	379	328	391	945	719
Other net income	115	72	110	107	119	98	187	216
Total income	2 260	2 550	2 170	2 192	2 222	2 353	4 810	4 575
Operating expenses	-1 284	-1 383	-1 278	-1 646	-1 235	-1 196	-2 667	-2 432
Impairment	-28	-152	-143	-420	-319	-560	-180	-880
o/w on loans and receivables	-27	-143	-130	-341	-307	-567	-170	-874
o/w on available-for-sale assets	0	0	-15	-29	-3	-1	0	-5
Share in results of associated companies	16	8	9	-20	0	-2	24	-1
Profit before tax	964	1 022	758	106	667	595	1 986	1 263
Income tax expense	-200	-188	-175	94	-181	-162	-388	-344
Profit after tax	763	834	583	200	486	433	1 598	919
attributable to minority interests	26	28	32	24	21	24	54	44
attributable to the equity holders of the parent	**737**	**806**	**551**	**176**	**465**	**409**	**1 543**	**875**
Belgium	455	318	215	158	255	289	773	543
Central & Eastern Europe and Russia	180	222	201	84	106	71	402	177
Merchant Banking	89	234	137	-42	91	41	323	132
European Private Banking	50	64	32	15	34	44	114	78
Group centre	-36	-32	-34	-38	-21	-35	-69	-55
Underlying earnings per share, basic (in EUR)	2.16	2.37	1.62	0.52	1.37	1.21	4.53	2.58
Underlying earnings per share, diluted (in EUR)	2.15	2.36	1.62	0.52	1.37	1.21	4.52	2.58

Reconciliation of the accounts according to IFRS with the underlying accounts

In order to arrive at the underlying net profit, the following factors are eliminated:

- Fair value changes recognised under IFRS on derivatives used for asset and liability hedging purposes that do not qualify for *fair value hedge accounting for a portfolio hedge of interest rate risk* (since most of the hedged assets are not fair valued, fair valuing of hedges themselves is, from an economic point of view, an asymmetric treatment generating results without substance).
- Fair value changes recognised under IFRS on *liabilities at fair value through profit or loss* due to the changes in own credit spreads;
- Exceptional factors that do not regularly occur during the normal course of business (including exceptional value losses on financial assets due to the financial crisis).

A detailed reconciliation of net profit under IFRS and underlying net profit is provided in the table below.

Moreover, in order to arrive at the underlying figures, the following additional adjustments are made (without any impact on net profit):

- Interest results on derivatives used for asset and liability hedging purposes that do not qualify for *fair value hedge accounting for a portfolio hedge of interest rate risk* are presented in the *net interest income* heading in the same way as the interest paid on the underlying assets is treated (under IFRS, the interest results on these derivatives are recognised as *net (un)realised gains from financial instruments at fair value*);
- All income components related to professional trading activities within the investment banking division are presented under the *net (un)realised gains from financial instruments at fair value* heading (while under IFRS, income is split across different headings).

Underlying profit analysis, KBC Group (in millions of EUR)	BU*	1Q 2008	2Q 2008	3Q 2008	4Q 2008	1Q 2009	2Q 2009	cumul. 1H 2008	cumul. 1H 2009
Profit after tax, attributable to equity holders of the parent		554	493	-906	-2 625	-3 600	302	1 047	-3 298
Minus									
- Amounts before taxes and minority items									
MTM of derivatives for hedging purposes	1,2,3,4,5	-33	41	-151	- 310	-137	206	9	69
MTM of own debt issued	5				371	134	200		334
Losses on CDOs/monolines	1,2,3,4	-137	-241	-1 732	-1 895	-3 793	996	-378	-2 796
Government guarantee fee							-1 121		-1 121
Value losses on AFS shares	1,2,3,4	-71	-138	-159	- 733	- 311	- 50	-209	-361
Impairment of exposure to US and Icelandic banks	2,3,4			-172	- 268	16	-1		16
Loss due to unwinding of derivative trading positions	3				- 245		-760		-760
Impairment on goodwill	1,2,3				- 10	-79	-28		-108
Exceptional tax adjustments	1,2,3,5					145	61		205
Other	1,2,3,4,5		-42	46	21	-49	2	-42	-47
- Taxes and minority interests on the items above	1,2,3,4,5	58	67	712	267	7	388	125	395
Underlying profit after tax, attributable to equity holders of the parent		737	806	551	176	465	409	1 543	875

* 1 = Belgium business unit; 2 = Central & Eastern Europe and Russia business unit; 3 = Merchant Banking business unit; 4 = European Private Banking business unit; 5 = Group Centre

----