Earnings statement

KBC Group, 1Q 2010

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Summary

KBC ended the three months to March 2010 with a net profit of 442 million euros, compared with a net profit of 304 million euros in the previous quarter. In the corresponding first quarter of 2009, when the financial crisis was at its height, a significant loss of 3.6 billion euros was posted. On an underlying basis, i.e. excluding non-operational items, net profit amounted to 543 million euros in the quarter under review.

Jan Vanhevel, Group CEO: 'Against the backdrop of a modest European economic recovery, KBC continued to focus on its core markets. In the first quarter, the progress started last year continued without major disruption. Our quarterly profit was up on the previous quarter due to stable business development combined with generally lower loan loss provisioning. The core earnings trends remained solid. In addition, we are making good progress on our flagship projects to refocus the business portfolio.'

Overview	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	1Q 2010 /1Q 2009	1Q 2010 / 4Q 2009
Net profit, IFRS (in millions of EUR)	-3 600	302	528	304	442	-	+45%
Earnings per share, basic, IFRS (in EUR)	-10.60	0.89	1.56	0.90	0.86	-	-4%
Underlying net profit (in millions of EUR)	465	409	631	218	543	+17%	+149%
Underlying earnings per share, basic (in EUR)	1.37	1.21	1.86	0.64	1.16	-15%	+81%
Breakdown of underlying net profit per business unit (in millions of EUR)*							
Belgium	234	276	271	268	279	+19%	+4%
Central & Eastern Europe	77	58	39	-13	110	+43%	-
Merchant Banking	168	-2	162	-28	85	-49%	-
Group Centre	-13	77	158	-9	70	-	-
Shareholders' equity per share (in EUR, end of period)	19.5	23.2	27.7	28.4	31.4	+61%	+11%

* The business unit breakdown has been changed. All planned divestments of group companies are now included in the Group Centre and all reference figures have been adapted retroactively.

The IFRS and underlying income statement summary tables are provided further on in this earnings statement.

Financial highlights for 1Q 2010:

- Continued sound deposit and credit spreads
- Gradual recovery of fee & commission income confirmed
- Strong dealing room activities, in line with market performance
- Insurance premium inflows continued their steady pace
- Operational expenses remained very well under control
- Substantially lower loan loss impairments quarter-on-quarter
- 1.5 billion euros' worth of excess regulatory capital accumulated beyond the 10% tier-1 solvency target

Financial highlights 1Q 2010

Jan Vanhevel, Group CEO, summarises the *underlying* business performance for 1Q 2010 as follows:

- 'Underlying, net interest income from the core deposit-taking and lending business stood at 1 344 million euros. The average net interest margin for the banking operations came to 1.82%, compared to 1.94% in the previous quarter. Deposit and credit spreads remained healthy. The tightening of the interest margin is mainly due to, for prudency reasons, an increased focus on short-term assets for the reinvestment of savings deposits'.
- 'Fee and commission income stood at 429 million euros, up 31% on the year-earlier quarter, when the financial crisis was at its height, thanks to increased income from the sale and management of investment products, on the back of improved investment sentiment. Compared to 4Q 2009, fee and commission income fell by 5%, partly related to seasonal effects.'
- 'Net gains from financial instruments at fair value, which includes among other things the result from the dealing room activities, stood at 320 million euros. This strong performance was in line with the market trend'.
- 'We are continuing our tight cost control. Following our efforts to cut costs over the past two years, our operating expenses were down 6% on the previous quarter and also 6% less than in the first quarter of 2009. The cost trend has been bottoming out and we expect costs to increase from this point.'
- 'We think we may have seen a turn in the credit cycle. Our base case scenario for 2010 is that losses will visibly decline compared to the 2009 financial year. At the end of the first quarter, we added 355 million euros to the loan loss provisions, significantly down on the 652 million registered in the previous quarter. The 1Q 2010 credit cost charge came to 0.84% of total loans for the whole group. In Central & Eastern Europe, the first-quarter credit cost was 1.20%, down from 1.70% for the full year 2009. In Belgium, loan loss provisioning came to practically nil, while the credit cost ratio came to 1.47% for the loan book of the Merchant Banking Business Unit.'
- 'During the first quarter, an excess of 1.5 billion euros of regulatory capital was built up over the 10% tier-1 target'

Headlines of underlying performance per business unit:

- It should be noted that the Group Centre now also includes all planned divestments of KBC Group. The aim here is to clearly indicate the financial performances of the long-term activities and the planned divestments separately.
- In Belgium, a strong cost performance combined with virtually no loan loss charges and stable revenues led to a higher net result.
- Central and Eastern Europe generated a slightly higher total income, as a result of a stable net interest margin, higher gross earned insurance premiums, increased trading and fair value income and slightly lower fees and commissions compared to the previous quarter. The main drivers for the better quarter-on-quarter net result of this business unit were substantially lower expenses and, even more importantly, much lower impairment on loans and receivables (around -50%). As a result, the bottom line for this business unit came to 110 million euros.
- In Merchant Banking, very good dealing room results added substantially to the bottom line. Due to the intentional run-down of the loan book, net interest income was down on the previous quarter. Given the difficult outlook for the Irish economy, we have enhanced loan loss provisions there by 142 million euros. However, the total amount of impairment booked for this business unit still fell by some 14% compared to the previous quarter. In total, the business unit reported a net result of 85 million euros.

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 underlying results (combined net impact: 0.1 billion euros). The main items were:

- A valuation mark-up of CDO exposure in the amount of 0.2 billion euros, resulting mainly from the further improvement of the credit environment;
- A trading loss of 0.1 billion euros, related to 'legacy' structured derivatives positions within KBC Financial Products (Merchant Banking Business Unit). Additional limited losses cannot be excluded for the next few quarters of 2010, while risk exposure is continuously being unwound.

1Q 2010 results per heading

Explanations per heading of the IFRS income statement for the first quarter of 2010 (see summary tables on the next few pages):

- The net result for the first three months of the 2010 financial year amounted to 442 million euros, compared to -3.6 billion euros a year earlier, which included significant losses related to CDOs and shares. The *underlying* net result for the quarter under review totalled 543 million euros.
- Net interest income came to 1 560 million euros, up 6% year-on-year (-1% on an underlying basis). While volume growth remained sluggish in the quarter, the average net interest margin of 1.82% was more or less unchanged from the first quarter of 2009 (1.80%).
- Gross earned premiums in insurance stood at 1 249 million euros, down 5% on the year-earlier figure. Net of technical charges and the ceded reinsurance result, technical insurance income came to 72 million euros. The claims level continued to be relatively high because of factors such as the storm Xynthia, leading to an 11% year-on-year hike in gross technical charges in the Non-Life segment.
- Dividend income from equity investments amounted to 17 million euros.
- Net (un)realised gains from financial instruments at fair value came to -3 million euros. On an underlying basis, this figure was significantly higher, at 320 million euros. Good sales and trading activities on the money and debt securities markets were recognised, in line with the market.
- Net realised gains from available-for-sale assets stood at 26 million euros, markedly lower than in the previous quarter.
- Net fee and commission income amounted to 420 million euros. This is 32% higher than the year-earlier level. Commission-based business continues to recover in volume terms after the historical low levels we have seen due to the financial crisis.
- Other net income totalled 101 million euros, down on the year-earlier figure of 152 million euros.
- Operating expenses came to 1 181 million euros, down 4% year-on-year (-6%, underlying). The cost level continued to benefit from cost containment measures initiated in 2008 but, going forward, costs are expected to move upwards. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 50%, compared to 55% for the whole of 2009.
- Total impairment charges stood at 383 million euros, 46% lower than the year-earlier quarter, and attributable primarily to loans and receivables. In 2009, the credit cost ratio had risen to 1.11%, but the ratio fell during the first quarter of 2010, to 0.84%. While impairment charges went down in all business units, the decline was most pronounced in Central & Eastern Europe. In Merchant Banking, part of the decrease in impairment on the international loan books was set off by higher impairment in KBC Bank Ireland.
- Income tax amounted to 177 million euros in the quarter under review.
- At the end of the first quarter of 2010, total equity came to 18.2 billion euros, up 1 billion euros on the figure at the end of 2009, mainly due to the inclusion of the positive quarterly result (+0.4 billion euros) and an increase of the revaluation reserve for available-for-sale assets (+0.6 billion euros). The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 11.0% of risk-weighted assets (9.5%, when excluding non-state hybrid tier-1 instruments).

Table of results according to IFRS

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. Condensed statements of comprehensive income, changes in shareholders' equity and cash flow as well as several notes to the accounts are also available in the same section. 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, according to IFRS, in millions of EUR	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2010
Net interest income	1 477	1 441	1 597	1 551	1 560	-	-	-
Gross earned premiums, insurance	1 308	1 256	1 122	1 169	1 249	-	-	-
Gross technical charges, insurance	-1 164	-1 127	-1 039	-1 106	-1 168	-	-	-
Ceded reinsurance result	-15	-17	-2	-30	-9	-	-	-
Dividend income	23	60	26	37	17	-	-	-
Net (un)realised gains from financial instruments at fair value through profit or loss	-3 742	78	-160	374	-3	-	-	-
Net realised gains from available-for-sale assets	34	13	117	109	26	-	-	-
Net fee and commission income	317	372	380	423	420	-	-	-
Other net income	152	116	116	44	101	-	-	-
Total income	-1 610	2 193	2 157	2 570	2 191	-	-	-
Operating expenses	-1 235	-1 518	-1 307	-1 231	-1 181	-	-	-
Impairment	-707	-633	-442	-995	-383	-	-	-
Of which on loans and receivables	-307	-578	-368	-650	-355	-	-	-
Of which on available-for-sale assets	-311	-19	-5	-16	-1	-	-	-
Share in results of associated companies	0	-2	3	-24	-1	-	-	-
Profit before tax	-3 552	40	411	320	626	-	-	-
Income tax expense	-28	286	8	-32	-177	-	-	-
Net post-tax income from discontinued operations	0	0	0	0	0	-	-	-
Profit after tax	-3 580	326	419	288	448	-	-	-
attributable to minority interests	20	24	-109	-16	6	-	-	-
attributable to equity holders of the parent	-3 600	302	528	304	442	-	-	-
Belgium	-951	533	343	579	283	-	-	-
Central & Eastern Europe	32	29	2	-149	99	-	-	-
Merchant Banking	172	-12	267	-16	64	-	-	-
Group Centre	-2 853	-248	-83	-110	-3	-	-	-
Earnings per share, basic (in EUR)	-10.60	0.89	1.56	0.90	0.86	-	-	-
Earnings per share, diluted (in EUR)	-10.60	0.89	1.56	0.90	0.86			

Highlights, consolidated balance sheet and ratios KBC Group, in millions of EUR or %	31-03-2009	30-06-2009	30-09-2009	31-12-2009	31-03-2010	30-06-2010	30-09-2010	31-12-2009
Total assets	347 400	344 415	334 219	324 231	340 128	-	-	-
Loans and advances to customers	154 409	158 949	156 974	153 230	153 640	-	-	-
Securities (equity and debt instruments)	95 834	96 559	97 252	98 252	101 984	-	-	-
Deposits from customers and debt certificates	205 110	194 141	194 748	193 464	203 367	-	-	-
Gross technical provisions, insurance	20 124	20 860	21 508	22 012	23 222	-	-	-
Liabilities under investment contracts, insurance	6 877	6 987	7 319	7 939	7 908	-	-	-
Parent shareholders' equity	6 636	7 888	9 416	9 662	10 677	-	-	-
Non-voting core-capital securities	3 500	7 000	7 000	7 000	7 000	-	-	-
Ratios KBC Group (based on underlying results, year-to-date)								
Return on equity				16%	18%	-	-	-
Cost/income ratio, banking				55%	50%	-	-	-
Combined ratio, non-life insurance				101%	98%	-	-	-

Table of underlying results

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 the exclusion of exceptional or non-operating items and a different accounting treatment of certain hedging results and capital-market income. In view of their nature and materiality, it is important to adjust the results for these factors to understand the profit trend fully. A full explanation of the differences between IFRS and underlying figures is provided in the 'Consolidated financial statements' section of the quarterly report, under 'Segment reporting'. A reconciliation table for net profit is provided below.

Consolidated income statement KBC Group, underlying, in millions of EUR	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010	2Q 2010	3Q 2010	4Q 2010
Net interest income	1 353	1 344	1 391	1 410	1 344	-	-	-
Gross earned premiums, insurance	1 308	1 256	1 122	1 169	1 249	-	-	-
Gross technical charges, insurance	-1 164	-1 127	-1 039	-1 086	-1 168	-	-	-
Ceded reinsurance result	-15	-17	-2	-30	-9	-	-	-
Dividend income	12	47	9	28	8	-	-	-
Net (un)realised gains from financial instruments at fair value through profit or loss	231	321	335	52	320	-	-	-
Net realised gains from available-for-sale assets	51	41	95	106	24	-	-	-
Net fee and commission income	328	391	400	450	429	-	-	-
Other net income	119	98	93	34	85	-	-	-
Total income	2 222	2 353	2 405	2 131	2 282	-	-	-
Operating expenses	-1 235	-1 196	-1 224	-1 231	-1 158	-	-	-
Impairment	-319	-560	-367	-666	-356	-	-	-
Of which on loans and receivables	-307	-567	-356	-652	-355	-	-	-
Of which on available-for-sale assets	-3	-1	0	-11	-1	-	-	-
Share in results of associated companies	0	-2	3	-24	-1	-	-	-
Profit before tax	667	595	816	210	767	-	-	-
Income tax expense	-181	-162	-167	3	-218	-	-	-
Profit after tax	486	433	649	213	549	-	-	-
attributable to minority interests	21	24	18	-5	6	-	-	-
attributable to equity holders of the parent	465	409	631	218	543	-	-	-
Belgium	234	276	271	268	279	-	-	-
Central & Eastern Europe	77	58	39	-13	110	-	-	-
Merchant Banking	168	-2	162	-28	85	-	-	-
Group Centre	-13	77	158	-9	70	-	-	-
Earnings per share, basic (in EUR)	1.37	1.21	1.86	0.64	1.16	-	-	-
Earnings per share, diluted (in EUR)	1.37	1.21	1.86	0.64	1.16			

Reconciliation between underlying profit and profit according to IFRS* KBC Group, in millions of EUR	1Q 2009	2Q 2009	3Q 2009	4Q 2009	1Q 2010			
Profit after tax, attributable to equity holders of the parent, UNDERLYING	465	409	631	218	543	-	-	-
+ MTM of derivatives for ALM hedging	-137	206	42	-33	-94	-	-	-
+ gains/losses on CDOs	-3 793	996	228	719	182	-	-	-
+ MTM of CDO guarantee and commitment fee	0	-1 121	-146	-143	-50	-	-	-
+ value losses on AFS shares	-311	-50	4	-4	0	-	-	-
+ impairment on troubled US & Icelandic banks	16	-1	42	8	13	-	-	-
+ gain on buy-back of hybrid tier-1 securities	0	0	128	0	0	-	-	-
+ impairment on goodwill	-79	-28	-58	-328	-27	-	-	-
+ loss on legacy structured derivative business (KBC FP)	0	-760	-153	-166	-101	-	-	-
+ MTM of own debt issued	134	200	-330	41	-2	-	-	-
+ other	96	63	-33	16	-62	-	-	-
+ taxes & minority interests re. items above	7	388	176	-24	41	-	-	-
Profit after tax, attributable to equity holders of the parent, IFRS	-3 600	302	528	304	442			

* A breakdown of this reconciliation table per business unit is provided in the chapter 'Underlying results per business unit' of the Extended quarterly report 1Q 2010.

Other information

Strategy highlights and future developments

- After reviewing its strategy in 2009, the Group clearly committed to lowering its risk profile while still maintaining its core earnings power and organic growth potential. Jan Vanhevel, Group CEO: 'Our assessment indicated plainly that our core business model remained largely untouched by the turbulence in the financial sector. However, it became obvious that we had to reduce our risk profile and the scope of activities to which we allocate capital. We, therefore, took our decision on strategy in accordance with this assessment.'
- The new strategy, announced in November 2009, is focused on growing bancassurance on an organic basis in Belgium and selected Central and Eastern European markets, targeting retail and SME customers, including local mid-caps. Exposure to non-domestic corporate lending and non-core capital market activities will be largely reduced and KBL European Private Bankers will be divested. This will be complemented by some additional capital optimisation measures. Jan Vanhevel: 'We are ready for the future. We have a clear vision for the mid-term that is supported by a strong business case. Implementation of the strategy is progressing well and this is being tightly monitored.'
- In line with the above strategy, all the activities earmarked for divestment have been regrouped, for reporting purposes, in the Group Centre. The results of the other business units hence exclude these companies. Jan Vanhevel: 'This makes it very easy to assess what activities are core to KBC and what their financial status is, allowing the investment community an even better insight into our financial strengths.'
- The refocus process has made substantial progress and a number of divestment transactions have already been signed in 1Q10, such as for the US reverse mortgage portfolio and the Japanese cash equity operations. Moreover, a significant reduction of the group's credit derivatives, as part of the restructuring of KBC Financial Products, was initiated in the first quarter of 2010 as well. The other divestments scheduled for 2010 remain on track.
- At the end of April, the Belgian tax ruling office ruled positively that a waiver of intercompany debt, related to CDO-linked losses incurred in past years, is tax deductible, provided certain conditions are met. In practice, this means KBC will be able to book a positive deferred tax income of 0.3 billion euros in the second quarter of 2010, partly compensating the losses it has suffered in previous periods.
- KBC intends to redeem the core capital securities that were issued to the State largely by retaining earnings and releasing capital currently tied up in non-core assets. KBC also intends to maintain a regulatory tier-1 capital ratio of 10%, of which 8% core capital, according to the so-called Basel II banking capital adequacy rules (in a first phase, the core capital also includes the core capital securities issued to the State).
- KBC's exposure to Greek sovereign bonds is limited to 1.9 billion euros (of which 0.6 billion in the trading book). More information on KBC's sovereign bond exposure to Southern Europe is provided in the Consolidated Financial Statements part of the quarterly report.

Additional information on the financial statements

- During the first quarter of 2010, no changes were made to the scope of consolidation or to the valuation rules that had a material net impact on earnings.
- In 1Q 2010, the value of local currencies in KBC's Central and Eastern European markets appreciated by (a weighted average of) 8% against the euro, compared to 1Q 2009 (with an impact on the result components of the Central & Eastern Europe Business Unit). However, when comparing 1Q 2010 with 4Q 2009, changes in the value of those currencies were not material.
- *Parent shareholders' equity per share* at 31 March 2010 (31.4 euros) was calculated on the basis of 339.73 million shares (for this calculation, the number of treasury shares held (18.2 million) was deducted from the number of ordinary shares outstanding (357.9 million).
- *Earnings per share* for 1Q 2010 (0.86 euros) was calculated on the basis of 339.73 million shares (average number during the quarter), while *diluted earnings per share* (0.86 euros) was calculated on the basis of 339.74 million shares (also quarterly average). In both cases, the average number of treasury shares held was deducted from the average ordinary share count. For calculating diluted earnings per share, however, the number of stock options granted to employees with an exercise price below market price (14 882) was added. Under IAS 33, the conversion option held on a portion of the non-voting core capital securities issued to the Belgian State and the share underwriting commitment by the State linked to the CDO guarantee scheme do not have any impact. Note: the coupon that is expected to be paid on the core-capital securities sold to the Belgian State and Flemish Region, is deducted from earnings (pro rata) in the EPS calculation.
- As usual, KBC has made additional risk disclosures on the composition of its loan book and its structured credit exposure as at 31 March 2010 (available in the English version of the extended quarterly report at www.kbc.com/ir). The financial calendar, including the dates of earnings releases as well as analysts and investor meetings, is available at www.kbc.com.