



Earnings Statement

KBC Group, 2Q2011 and 1H 2011

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Summary: Strong first half profit at 1 154 million euros

KBC ended the second quarter of 2011 with a consolidated net profit of 333 million euros, compared with a net profit of 821 million euros in the previous quarter and 149 million euros in the year-earlier quarter. On a cumulative basis, this means that the KBC group has generated a net profit of 1 154 million euros in the first half of 2011, almost double the corresponding figure for 1H2010.

Disregarding one-off and exceptional items, the ‘underlying’ net result for the quarter under review came to 528 million euros, compared with 658 million euros in 1Q2011 and 554 million euros in 2Q2010. The underlying result for the first half of 2011 amounted to 1 186 million euros, compared to 1 097 million euros for the corresponding period in 2010.

Jan Vanhevel, Group CEO: *‘The net result for the second quarter of 2011 amounted to 333 million euros – which when added to the first quarter result – brings the net result for the first half of 2011 to a very satisfying 1 154 million euros, almost twice as high as the figure in the corresponding period of 2010. This was due largely to sustained underlying revenues generated by our Belgium and Central & Eastern Europe Business Units, combined with well-controlled costs throughout the group. Loan loss impairment was up after the exceptionally low level in the first quarter and an impairment of 102 million euros after tax was also recorded on our Greek government bond portfolio, reducing the underlying result for this quarter. Our reported IFRS result also included some exceptional items, including a 0.1-billion-euro markdown on our CDO portfolio and a marked-to-market change of -0.1 billion euros in the value of our trading derivatives used for hedging purposes.’*

‘In mid-July, we announced a substantial change to our strategic plan. The main change concerned replacing the originally intended IPO of a minority share in ČSOB Bank and K&H Bank by the sale of Kredyt Bank and Warta, our Polish subsidiaries. This adjustment has since been approved by the European Commission. We strongly believe this provides us with a solid basis for the future achievement of the goals set in our strategic refocusing exercise. Our bancassurance business model remains at the core of our strategy’

Overview (consolidated)	2Q2010	1Q2011	2Q2011	Cumul. 1H2010	Cumul. 1H2011
Net result, IFRS (in millions of EUR)	149	821	333	591	1 154
Earnings per share, basic, IFRS (in EUR) ¹	0.00	1.98	0.54	0.86	2.52
Underlying net result (in millions of EUR)	554	658	528	1 097	1 186
Underlying earnings per share, basic (in EUR) ¹	1.19	1.50	1.11	2.35	2.61
Breakdown of underlying net result per business unit (in millions of EUR) ²					
Belgium	298	280	238	577	518
Central & Eastern Europe	112	101	137	222	239
Merchant Banking	121	177	63	206	240
Group Centre	23	99	90	93	189
Parent shareholders' equity per share (in EUR, end of period)	30.2	32.4	33.8	30.2	33.8

¹ 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.

² The changes in the strategic plan announced in mid-2011 are not yet reflected in the breakdown by business unit.

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

Financial highlights for 2Q2011 compared to 1Q2011:

- Continued high underlying net profit from day-to-day business even after impact of Greek sovereign bond impairment.
- Sustained level of net interest income. Modest increase in loan volume driven by mortgages.
- Slight decrease in net fee and commission income on account of somewhat lower AUM, given reduced investors' risk appetite.
- Excellent combined ratio of 87% year-to-date, thanks to low claims. Lower life insurance sales due to lower sales of interest guaranteed products.
- Modest level of income generated by the dealing room.
- Underlying cost/income ratio at a good 56% year-to-date.
- Credit cost ratio at a low 0.32% year-to-date. Post-tax impairment of 102 million euros for Greece.
- Consistently strong liquidity position.
- Solvency: continued strong capital base: *pro forma* tier-1 ratio – including the effect of divestments for which a sale agreement has been signed to date – at approximately 14.3%.

Financial highlights 2Q2011 (underlying)

Jan Vanhevel, Group CEO, summarises the **underlying** business performance for 2Q2011 as follows:

Gross income benefit from sustained net interest income and an improved technical insurance result.

- Underlying net interest income stood at 1 390 million euros, stable year-on-year and up 1% quarter-on-quarter. The net interest margin came to 1.98% for the quarter, up from 1.93% in 1Q2011. The net interest margin was also up on its 2Q2010 level of 1.87%. In the Belgium Business Unit, credit and deposit volumes rose by 2% and 3%, respectively, compared to their 1Q2011 levels. Compared to 2Q2010, credit volumes were up by as much as 4% (mortgages by a robust 7%) and deposit volumes by 6%. The loan book in the CEE Business Unit contracted slightly quarter-on-quarter, shrinking by 1% (but mortgages increased by 1%), while the deposit base was stable. Year-on-year, the CEE loan book grew by 1% (driven to a large extent by the 4% mortgage book growth) and the deposit base remained stable. The loan book in the Merchant Banking Business Unit contracted by 8% year-on-year (stable compared to the previous quarter), in line with the intention to run down international operations. The deposit base in this business unit shrank too, falling by 7% quarter-on-quarter and 9% year-on-year.
- Net of technical charges and the ceded reinsurance result, technical insurance income came to 123 million euros, up 85% year-on-year and 14% quarter-on-quarter. The combined ratio improved substantially from 104% for 2Q2010 to an excellent 90% for 2Q2011. The year-to-date ratio stood at 87%.
- The net result from financial instruments at fair value stood at a modest 102 million euros, lower than in the previous and year-earlier quarters, due to the moderate performance turned in by the dealing room in the quarter under review.
- Net fee and commission income amounted to 394 million euros, down 1% quarter-on-quarter and 13% year-on-year. The quarter-on-quarter performance is to a large extent accounted for by the volume of assets under management, which also fell by 1% in the second quarter of this year. Year-on-year, the decrease is due to a reduction in the fee business as well, as a result of the scaled-down international activities.
- The other income components came to an aggregate 151 million euros, up on the 134 million euros recorded in the previous quarter.

Operating expenses lower, impairment impacted by Greece.

- Operating expenses came to 1 155 million euros for the second quarter of 2011, flat on their year-earlier level but down 6% quarter-on-quarter. However, excluding the booking in 1Q2011 of the Hungarian bank tax for full year 2011, costs were more or less the same quarter-on-quarter too. All in all, costs remain under control.
- Loan loss impairment stood at 164 million euros in the second quarter, down on the 278 million euros recorded a year ago, but up on the low figure recorded in the previous quarter (97 million euros). As a consequence, the annualised credit cost ratio stood at a favourable 0.32% for the first six months of 2011; this breaks down into an excellent 0.10% for the Belgian retail book (down from 0.15% for FY2010), a very low 0.53% in Central and Eastern Europe (down from 1.22% for FY2010) and 0.58% for Merchant Banking (down from 1.38% for FY2010).
- Other impairment charges relate mainly to the value markdown on Greek government bonds (139 million euros before tax, 102 million euros after tax).

Strong capital position under Basel II.

- At the end of 2Q2011, the KBC group had generated capital of roughly 5.3 billion euros in excess of the 10% tier-1 target (including the effect of divestments for which a sale agreement has been signed to date).

Highlights of underlying performance per business unit.

- The Belgium Business Unit contributed 238 million euros to profit in 2Q2011. This was 42 million euros less than in 1Q2011, 30 million euros of which related to the impairment on Greek government bonds, with the rest mainly relating to slightly higher costs and loan loss impairments, despite an increase in total income.
- The CEE Business Unit contributed 137 million euros to profit in 2Q2011, compared to 101 million euros in the previous quarter. The increase is due largely to the full-year Hungarian bank tax being booked in the first quarter, though this has been offset in part by the 26-million-euro impairment recorded on Greek Government bonds in 2Q2011. The changes in the strategic plan, as approved by the European Commission at the end of July 2011 (see further), are not yet reflected in these figures.
- The Merchant Banking Business Unit contributed 63 million euros to profit in 2Q2011, down from the 177 million euros recorded in 1Q2011. The decrease is due mainly to much lower gains from financial instruments at fair value, driven by the modest level of income generated by the dealing room, lower net interest income (decreasing portfolio) and somewhat higher loan loss impairments.

- It should be noted that all planned divestments of the KBC group are not included in the respective business units, but have been grouped together in the Group Centre in order to clearly indicate the financial performance of the long-term activities and the planned divestments separately. In 2Q2011, the Group Centre's net result came to 90 million euros, compared to 99 million euros in the previous quarter. We repeat that the changes in the strategic plan, as approved by the European Commission at the end of July 2011, are not yet reflected in these figures.

Negative value adjustments dominate exceptional items.

- The quarter was also characterised by a number of one-off or exceptional items that were not part of the normal course of business and were therefore excluded from the underlying results. Their combined impact in 2Q2011 amounted to a negative 0.2 billion euros.
- Apart from some smaller items, the main non-operating item in 2Q2011 was the valuation markdown of 0.1 billion euros on the CDO exposure, resulting mainly from a widening of corporate and ABS credit spreads. Besides this, there was a negative 0.1 billion euros marked-to-market change in the value of the position in trading derivatives used for hedging purposes, primarily because of a widening of government spreads.

First six months of 2011: results per heading (IFRS)

Explanations per heading of the **IFRS** income statement for the first six months of 2011 (see summary table on the next page):

- The IFRS net result for the first six months of 2011 (further referred to as 1H2011) amounted to a strong 1 154 million euros, significantly up on the 591 million euros recorded in the same period of 2010.
- Net interest income amounted to 2 801 million euros in 1H2011, down 9% on its 1H2010 level. On a comparable basis, credit volumes contracted by 8% year-on-year in Merchant Banking and by 11% in the Group Centre, in line with our intention to scale down our international loan book. On the other hand, the loan book in Belgium grew by 4% year-on-year, with mortgage loans up by as much as 7%, while loan volumes in CEE were up by 1% (sizeable increases in the Czech Republic and Slovakia), with mortgage loans going up by 4%. Year-on-year, customer deposits rose by 6% in Belgium, remained flat in CEE and decreased significantly in Merchant Banking and the Group Centre. The net interest margin widened from 1.84% in 1H2010 to 1.95% in 1H2011.
- Earned insurance premiums, before reinsurance, stood at 2 115 million euros in 1H2011, 12% down on the figure for 1H2010, due to life insurance. Net of technical charges and the ceded reinsurance result, technical insurance income came to 238 million euros, up 62% on the year-earlier figure. The first half of 2011 was characterised by a relatively low level of claims. The combined ratio for the group's insurance companies came to an excellent 87% for 1H2011, compared to 100% for FY2010.
- Net fee and commission income amounted to 597 million euros in 1H2011, down 9% on its 1H2010 level. Sales of commission-based products were subdued in the first half of 2011. Assets under management stood at 203 billion euros at the end of June 2011, 3% down on their year-earlier level on account of negative net entry effects, though partly mitigated by a positive investment performance.
- The net result from financial instruments at fair value (trading and fair value income) came to 279 million euros in 1H2011, compared to -733 million euros in 1H2010. On an underlying basis (i.e. excluding exceptional items such as value adjustments to structured credit, results related to the activities of KBC Financial Products that are being wound down, and after shifting all trading-related income items to this income statement line), trading and fair value income amounted to 361 million euros in 1H2011.
- The remaining income components were as follows: dividend income from equity investments amounted to 53 million euros, the net realised result from available-for-sale assets (bonds and shares) stood at 76 million euros and other net income totalled 202 million euros. When aggregated, this figure was 14% lower year-on-year.
- Operating expenses amounted to 2 224 million euros in 1H2011, 5% higher than in 1H2010. The cost comparison is distorted by the booking (in 1Q2011) of the Hungarian bank tax for FY2011 (62 million euros). Excluding this item, costs increased by a mere 2% year-on-year. The underlying cost/income ratio for banking – a measure of cost efficiency – stood at 56% in 1H2011, in line with the figure recorded for FY2010.
- Impairment stood at 437 million euros in 1H2011. Impairment on loans and receivables amounted to 260 million euros, significantly less than the 633 million recorded in 1H2010. As a result, the annualised credit cost ratio for 1H2011 came to a favourable 0.32%, down on the figure of 0.91% for FY2010. Other impairment charges totalled 176 million euros in 1H2011 and relate mainly to Greek government bonds (139 million euros, pre-tax).
- Income tax amounted to 411 million euros for 1H2011.
- At the end of the first half of 2011, total equity came to 19.0 billion euros, a 0.3-billion-euro increase compared to the start of the year, due mainly to the inclusion of the positive result for the period under review (+1.2 billion euros) and partly offset by the dividend and state coupon paid (-0.9 billion euros, combined). The group's tier-1 capital ratio – a measure of financial strength – stood at a sound 13.9% at end-June 2011. Including the effect of sale agreements announced to date (Centea), the *pro forma* tier-1 ratio amounts to approximately 14.3%.

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 according to IFRS, KBC Group (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Cumul. 1H2010	Cumul. 1H2011
Net interest income	1 519	1 567	1 562	1 598	1 395	1 406	-	-	3 086	2 801
Interest income	2 621	2 651	2 627	2 642	3 047	3 195	-	-	5 273	6 241
Interest expense	-1 103	-1 085	-1 065	-1 045	-1 651	-1 789	-	-	-2 187	-3 440
Earned premiums, insurance (before reinsurance)	1 248	1 144	1 074	1 150	1 141	974	-	-	2 392	2 115
Technical charges, insurance (before reinsurance)	-1 163	-1 123	-957	-1 018	-1 012	-840	-	-	-2 286	-1 852
Ceded reinsurance result	-9	50	-23	-26	-17	-8	-	-	41	-25
Dividend income	15	40	21	21	12	41	-	-	56	53
Net result from financial instruments at fair value through profit or loss	-11	-721	227	429	472	-194	-	-	-733	279
Net realised result from available-for-sale assets	19	30	11	29	34	42	-	-	50	76
Net fee and commission income	322	336	259	307	300	297	-	-	658	597
Fee and commission income	549	578	480	549	518	530	-	-	1 127	1 048
Fee and commission expense	-227	-242	-221	-242	-218	-233	-	-	-469	-452
Other net income	98	182	65	107	92	110	-	-	280	202
Total income	2 038	1 504	2 239	2 597	2 416	1 829	-	-	3 543	4 245
Operating expenses	-1 072	-1 044	-1 130	-1 190	-1 143	-1 081	-	-	-2 116	-2 224
Impairment	-383	-299	-420	-555	-105	-332	-	-	-681	-437
on loans and receivables	-355	-278	-357	-492	-97	-164	-	-	-633	-260
on available-for-sale assets	-1	-16	-5	-9	-6	-118	-	-	-17	-124
on goodwill	-27	-1	-13	-47	0	-17	-	-	-28	-17
on other	0	-3	-45	-6	-2	-33	-	-	-2	-35
Share in results of associated companies	-2	-9	-5	-46	1	0	-	-	-11	1
Result before tax	581	153	683	806	1 170	416	-	-	734	1 585
Income tax expense	-164	304	-124	-97	-334	-76	-	-	140	-411
Net post-tax result from discontinued operations	31	-302	-7	24	0	0	-	-	-271	0
Result after tax	448	155	553	733	835	340	-	-	603	1 175
attributable to minority interests	6	6	8	8	14	6	-	-	12	20
attributable to equity holders of the parent	442	149	545	724	821	333	-	-	591	1 154
Belgium	283	131	321	453	385	158	-	-	414	543
Central & Eastern Europe*	99	119	76	146	117	137	-	-	218	254
Merchant Banking	64	73	173	-138	203	69	-	-	137	272
Group Centre*	-3	-174	-24	264	116	-31	-	-	-177	85
Earnings per share, basic (EUR)	0.86	0.00	1.17	1.69	1.98	0.54	-	-	0.86	2.52
Earnings per share, diluted (EUR)	0.86	0.00	1.17	1.69	1.98	0.54	-	-	0.86	2.52

* The changes in the strategic plan announced in mid-2011 are not yet reflected in the figures for these business units.

Highlights, consolidated balance sheet and ratios, KBC Group (in millions of EUR or %)	31-03- 2010	30-06- 2010	30-09- 2010	31-12- 2010	31-03- 2011	30-06- 2011	30-09- 2011	31-12- 2011
Total assets	340 128	350 232	328 590	320 823	322 493	312 899	-	-
Loans and advances to customers*	153 640	157 024	149 982	150 666	147 625	143 182	-	-
Securities (equity and debt instruments)*	101 984	95 910	96 876	89 395	88 839	85 144	-	-
Deposits from customers and debt certificates*	203 367	205 108	198 825	197 870	192 412	188 116	-	-
Technical provisions, before insurance*	23 222	22 384	22 843	23 255	23 870	24 084	-	-
Liabilities under investment contracts, insurance*	7 908	6 496	6 488	6 693	6 568	6 638	-	-
Parent shareholders' equity	10 677	10 259	11 245	11 147	11 011	11 500	-	-
Non-voting core-capital securities	7 000	7 000	7 000	7 000	7 000	7 000	-	-
KBC Group ratios (based on underlying results, year-to-date)								
Return on equity				11%		16%	-	-
Cost/income ratio, banking				56%		56%	-	-
Combined ratio, non-life insurance				100%		87%	-	-
KBC Group solvency								
Tier-1 ratio				12.6%		13.9%	-	-
Core tier-1 ratio				10.9%		12.1%	-	-

* Note: in accordance with IFRS 5, the assets and liabilities of a number of divestments were moved to 'Non-current assets held for sale and assets associated with disposal groups' and 'Liabilities associated with disposal groups', which slightly distorts the comparison between periods.

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 ‘Notes on segment reporting’. A reconciliation table for the net result is provided below.

Consolidated income statement, KBC Group, underlying (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Cumul. 1H2010	Cumul. 1H2011
Net interest income	1 344	1 394	1 406	1 459	1 374	1 390	-	-	2 738	2 764
Earned premiums, insurance (before reinsurance)	1 249	1 146	1 075	1 151	1 141	975	-	-	2 395	2 116
Technical charges, insurance (before reinsurance)	-1 168	-1 129	-962	-1 022	-1 016	-843	-	-	-2 297	-1 859
Ceded reinsurance result	-9	50	-23	-26	-17	-8	-	-	41	-26
Dividend income	8	36	12	18	8	37	-	-	43	45
Net result from financial instruments at fair value through profit or loss	320	147	264	124	259	102	-	-	467	361
Net realised result from available-for-sale assets	24	41	6	28	53	42	-	-	64	95
Net fee and commission income	429	454	367	417	399	394	-	-	883	794
Other net income	85	68	62	-96	73	72	-	-	153	145
Total income	2 282	2 205	2 206	2 051	2 274	2 161	-	-	4 487	4 434
Operating expenses	-1 158	-1 150	-1 214	-1 311	-1 227	-1 155	-	-	-2 307	-2 382
Impairment	-356	-298	-361	-510	-105	-333	-	-	-653	-439
on loans and receivables	-355	-278	-356	-492	-97	-164	-	-	-633	-261
on available-for-sale assets	-1	-17	-5	-10	-6	-135	-	-	-18	-141
on goodwill	0	0	0	0	0	0	-	-	0	0
on other	0	-3	0	-7	-2	-35	-	-	-2	-37
Share in results of associated companies	-1	-9	-5	-46	1	0	-	-	-10	1
Result before tax	767	749	626	184	943	673	-	-	1 516	1 615
Income tax expense	-218	-189	-173	-7	-271	-138	-	-	-407	-410
Result after tax	549	559	453	177	671	534	-	-	1 109	1 206
attributable to minority interests	6	6	8	9	14	6	-	-	12	20
attributable to equity holders of the parent	543	554	445	168	658	528	-	-	1 097	1 186
Belgium	279	298	220	255	280	238	-	-	577	518
Central & Eastern Europe*	110	112	53	131	101	137	-	-	222	239
Merchant Banking	85	121	156	-228	177	63	-	-	206	240
Group Centre*	70	23	16	11	99	90	-	-	93	189
Earnings per share, basic (EUR)	1.16	1.19	0.87	0.06	1.50	1.11	-	-	2.35	2.61
Earnings per share, diluted (EUR)	1.16	1.19	0.87	0.06	1.50	1.11	-	-	2.35	2.61

* The changes in the strategic plan announced in mid-2011 are not yet reflected in the figures for these business units.

Reconciliation between underlying result and result according to IFRS KBC Group (in millions of EUR)	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	3Q 2011	4Q 2011	Cumul. 1H2010	Cumul 1H2011
Result after tax, attributable to equity holders of the parent, UNDERLYING	543	554	445	168	658	528	-	-	1 097	1 186
+ MTM of derivatives for ALM hedging	-57	-179	16	41	96	-77	-	-	-236	19
+ gains/losses on CDOs	176	326	221	304	124	-86	-	-	502	39
+ MTM of CDO guarantee and commitment fee	-33	-18	-23	6	-10	-22	-	-	-51	-31
+ impairment on goodwill (and associated companies)	-27	-1	-43	-47	0	-17	-	-	-28	-17
+ result on legacy structured derivative business (KBC FP)	-126	-210	6	-42	14	43	-	-	-336	57
+ MTM of own debt issued	-2	33	-34	41	-16	-25	-	-	31	-41
+ Results on divestments	0	-338	-44	206	-45	-12	-	-	-338	-56
+ other	-32	-18	2	46	0	0	-	-	-51	0
Result after tax, attributable to equity holders of the parent: IFRS	442	149	545	724	821	333	-	-	591	1 154

Other information

Strategy highlights and main events

- KBC posted a good result for the first half of 2011. The group has a sound bancassurance business model which is and remains at the core of our strategy. The result for the period under review indicates that this underlying business strategy is working and reflects the current status of the economies in the markets KBC is active in.
- In the first half of 2011, we continued to implement our strategic refocusing plan. In March 2011, it was announced that Crédit Agricole (Belgium) would acquire Centea. This deal, which was closed on 1 July 2011, will free up around 0.4 billion euros of capital for KBC, primarily by reducing risk-weighted assets by 4.2 billion euros, which will ultimately boost KBC's tier-1 ratio by around 0.4%.
- As stated during the previous quarter, we have restarted the sales process for KBL EPB.
- In addition to this, Value Partners Ltd., a Hong Kong-based and listed asset management firm, reached an agreement with KBC Asset Management (KBC AM) in April 2011 for the acquisition of KBC AM's 55.46% stake in KBC Concord Asset Management Co. Ltd.
- During the second quarter of 2011, KBC Bank and the International Finance Corporation (IFC) – the private sector arm of the World Bank Group – signed and closed an agreement through which KBC Bank would acquire a large part of IFC's 5% stake in Absolut Bank. The sale is the result of the IFC exercising the put option it had agreed with KBC Bank in 2007. As a result, KBC Bank now holds a 99% stake in Absolut Bank. The transaction did not have any impact on KBC's capital position.
- Beginning of August, KBC Securities has completed the divestments of its operations in Serbia and Romania, reaching an agreement on management buy-outs with local management.
- A number of companies are still scheduled for divestment as part of the planned reduction in the international loan portfolio. The sales process for KBL EPB and for Fidea is ongoing, the sales process for KBC Bank Deutschland has started, and the files for the sales process for Antwerp Diamond Bank are being prepared.
- On 13 July 2011, it was announced that KBC had formally applied to the European Commission to amend its 2009 strategic plan. Due to the impact of certain changes in the regulatory environment (especially Basel III and draft IFRS rules on leases) and the difficulty involved in floating K&H Bank in the current circumstances, some measures presented in the initial plan had become less effective in achieving the intended aim. KBC and the Belgian Authorities formally applied to the European Commission for its approval to replace the planned IPOs of a minority stake in ČSOB Bank (Czech Republic) and K&H Bank (Hungary), as well as the sale and lease back of KBC's head offices in Belgium, by the divestment of KBC's Polish banking and insurance subsidiaries, Kredyt Bank and Warta (and their subsidiaries), and the sale or unwinding of selected ABS and CDO assets. The application was approved by the European Commission on 27 July 2011. KBC believes that the amendments will help the group achieve its objectives. KBC's main objective is and remains to execute the plan within the agreed timeframe and to repay the Belgian authorities in a timely manner.
- As a result of the current credit stress on Greek government bonds, KBC decided to record an impairment of 0.1 billion euros (post-tax) on its Greek government bond exposure (0.5 billion euros, pre-impairment book value). It supports the voluntary rollover of Greek debt, as proposed by the IIF.
- Given the current economy and domestic Irish Marketplace has not improved as was envisaged and the austerity measures do have a sizeable impact on households, challenging credit conditions will remain, fuelled by continued downward pressure on asset values and rising interest rates generating pressure on borrowers. This might lead to a higher loan loss provisions rate in the next quarters.
- KBC Bank (a fully owned subsidiary of KBC Group NV) was subjected to the 2011 EU-wide stress test conducted by the European Banking Authority (EBA) in co-operation with the National Bank of Belgium, the European Central Bank (ECB), the European Commission (EC) and the European Systemic Risk Board (ESRB). The test seeks to assess the resilience of European banks to severe shocks and their specific solvency to hypothetical stress events under certain restrictive conditions. The assumptions and methodology were established to assess banks' capital adequacy against a 5% Core Tier-1 capital benchmark and are intended to restore confidence in the resilience of the banks tested. The adverse stress test scenario was set by the ECB and covers a two-year time horizon (2011-2012). The stress test was carried out using a static balance sheet assumption as at December 2010. It does not take into account future business strategies and management actions and is not a forecast of KBC Bank's profits. As a result of the assumed shock, the estimated consolidated Core Tier-1 capital ratio of KBC Bank would change to 10.0% under the adverse scenario in 2012 compared to 10.5% at year-end 2010. This result incorporates the effects of the mandatory restructuring plans agreed with the EU Commission before 31 December 2010.

- KBC also intends to maintain a regulatory tier-1 capital ratio of 10%, 8% of which is core capital, according to Basel II banking capital adequacy rules.
- The financial calendar, including the dates of earnings releases as well as analysts and investor meetings, is available at www.kbc.com.

Statement of risk

- Mainly active in banking, insurance and asset management, KBC Group NV is exposed to a number of typical risks such as – but not exclusively – credit default risk, movements in interest rates, capital markets risk, currency risk, liquidity risk, insurance underwriting risk, operational risk, exposure to emerging markets, changes in regulations, customer litigation, as well as the economy in general. It is part of the business risk that the macroeconomic environment and the ongoing restructuring plans may have a negative impact on asset values or could generate additional charges beyond anticipated levels.
- Risk management data are provided in KBC Group NV's annual reports, the extended quarterly reports and the dedicated risk reports, all of which are available at www.kbc.com.
- For the remainder of 2011, special areas of attention from a macroeconomic point of view will be the extent and duration of the ongoing slowdown of growth worldwide. In particular, future job creation on the US labour market and the further development of the EMU (and US) sovereign risk issue will be critical determinants.

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Note for the editor:

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